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Hong Leong Financial Group Berhad

ANNUAL REPORT **2011**

annual report **2011**

Hong Leong Financial Group Berhad (8024-W)
A Member of the Hong Leong Group

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.

CONTENTS

Corporate Section

Financial Section

RM156.2bil
Total assets
(2010:RM94.2 bil)

RM1.9bil
Revenue
(2010:RM1.6 bil)

RM2.4bil
Profit before tax
(2010:RM1.5 bil)

RM1.7bil
Profit attributable to owners of parent
(2010:RM0.9 bil)

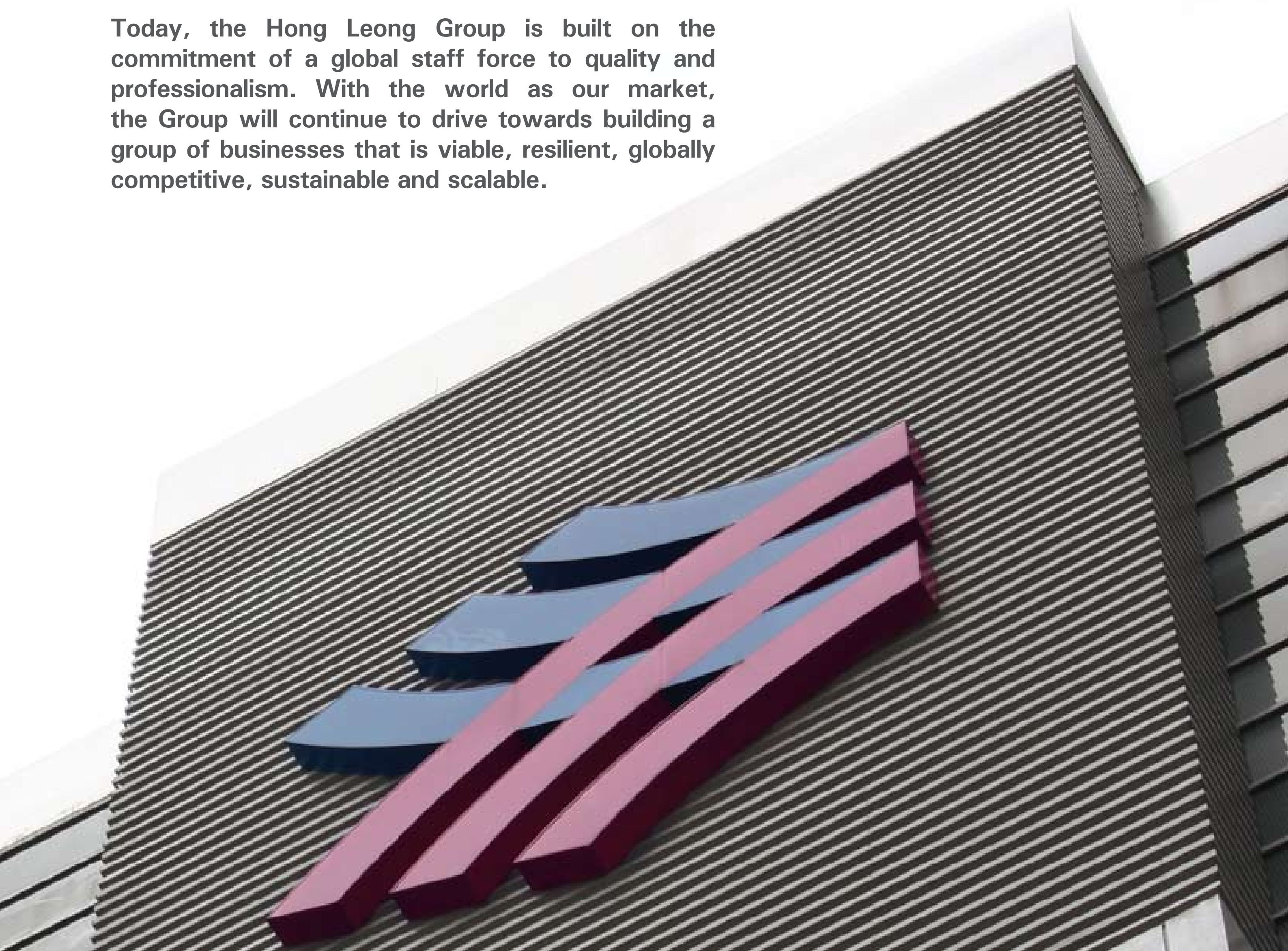
161.2sen
Basic earnings pershare
(2010:83.1 sen)

THE VALUE OF HERITAGE

THE POWER OF VISION

Hong Leong Group proves that vision together with determination, innovation and the ability to respond to challenges and opportunities present a powerful and compelling force resulting in growth and success in business. We are proud of our heritage as an entrepreneur – a heritage that will continue to be the guiding principle for the Group into the future.

Today, the Hong Leong Group is built on the commitment of a global staff force to quality and professionalism. With the world as our market, the Group will continue to drive towards building a group of businesses that is viable, resilient, globally competitive, sustainable and scalable.



INTRODUCTION

Hong Leong Financial Group 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.

INTRODUCTION
(continued)

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.

Hong Leong Bank Berhad provides comprehensive services in consumer banking, business banking, treasury, branch and transaction banking, wealth management and private banking, and Islamic banking. Following the merger with the EON Bank Group, the Bank has an expanded distribution network of more than 300 branches and 1200 self-service terminals nationwide in Malaysia, further embedding the Bank and brand into the community.

Hong Leong Bank Berhad has been rapidly extending its footprint in the region, with branches in Singapore and Hong Kong and a wholly-owned subsidiary in Vietnam. In China, the Bank has a 20% shareholding in Bank of Chengdu Co., Ltd., Sichuan and a consumer finance joint venture.

Islamic banking is provided via its full fledged Islamic bank, Hong Leong Islamic Bank Berhad. It offers Syariah-compliant solutions in wholesale and investment banking, business banking, consumer banking, and wealth management.

Through a strategic partnership, Hong Leong Assurance Berhad is now a joint venture Life insurance company with a 30% shareholding by Mitsui Sumitomo Insurance Co., Ltd. Hong Leong Assurance Berhad is one of Malaysia's fastest growing Life insurers backed by an expanding agency force nationwide. On the General insurance front, HLA Holdings Sdn Bhd, our insurance holding company, has a 30% stake in MSIG Insurance (Malaysia) Bhd, a leading General insurer in Malaysia. The Group is also present in Hong Kong through its subsidiary Hong Leong Insurance (Asia) Limited. Additionally, Islamic Insurance or Takaful is provided through Hong Leong MSIG Takaful Berhad.

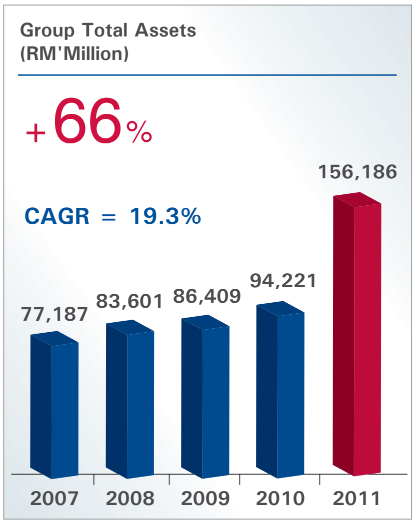
Investment banking, stock and futures broking and fund management services across the region is also provided through the subsidiaries of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), namely Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd.

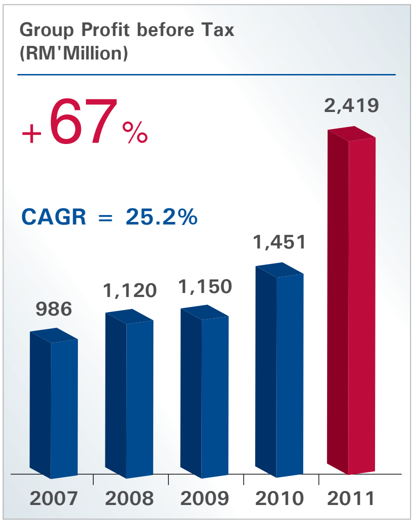
FINANCIAL HIGHLIGHTS

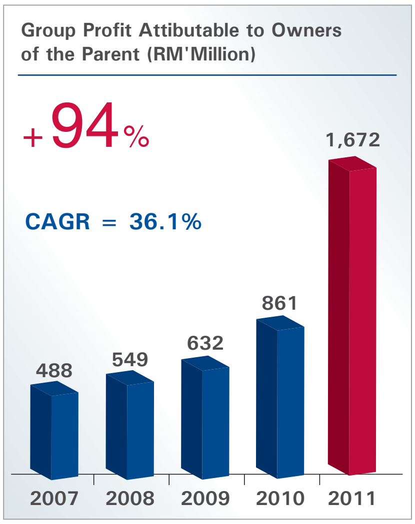
FIVE YEAR GROUP FINANCIAL HIGHLIGHTS

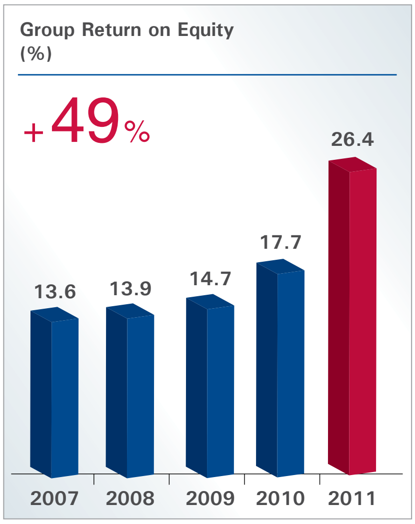
The Group (RM' Million)	2007	2008	2009	2010	2011
Statements of Financial Position					
Total Assets	77,187	83,601	86,409	94,221	**156,186**
Net Loans	32,151	35,091	35,498	38,522	**82,735**
Shareholders' Funds	3,766	4,108	4,497	5,219	**7,469**
Statements of Income					
Revenue	1,988	2,225	2,270	2,459	**3,656**
Profit before tax	986	1,120	1,150	1,451	**2,419**
Net Profit	722	826	962	1,206	**2,069**
Profit attributable to owners of the parent	488	549	632	861	**1,672**
Key Performance Indicators					
Return on Equity	13.6%	13.9%	14.7%	17.7%	**26.4%**
Earnings per Share (sen)	47.0	52.9	61.0	83.1	**161.2**
Book Value per Share (RM)	3.58	3.90	4.27	4.96	**7.10**
Net Dividend per Share (sen)	16.8	17.1	17.3	18.8	**26.4**

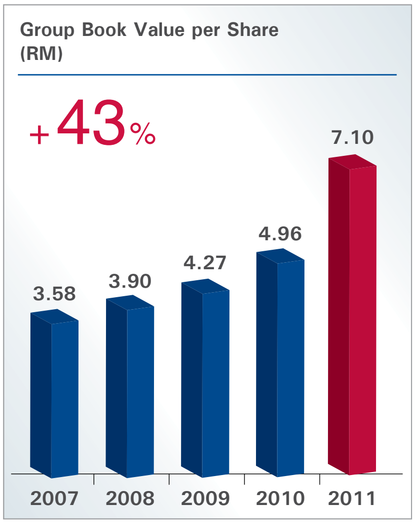
Five year performance chart (% growth is from 2010 to 2011)

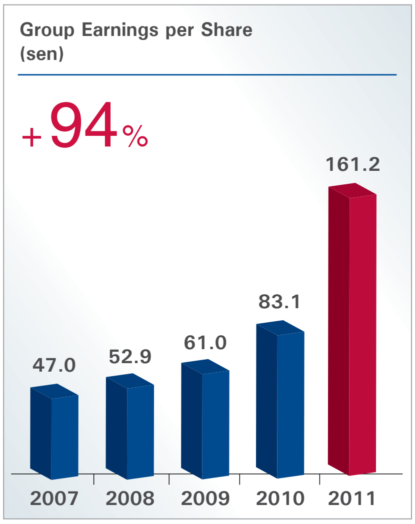












MEDIA HIGHLIGHTS

HLFG at a TURNING POINT

Hong Leong Financial Group has completed the first phase of a transformation exercise. It is now an enlarged and complete financial services institution with profits on an upward trajectory and a toehold in the region. Group president and CEO Raymond Choong says HLFG is now ready to move

Hong Leong Financial jangka sumbangan kasar RM100 juta

HLFG to expand further in region

It's looking to venture into third emerging market

Hong Leong's strategy for China banking unit

It plans to open Bank of Chengdu branches in rural areas

We are excited with the prospects ... One of the strategies is to expand beyond Chengdu and grow bigger

HLFG's 3Q net profit surges 86.4% to RM264.6m

KUALA LUMPUR: Hong Leong Financial Group Bhd's (HLFG) net profit for 3QFY11 ended March 31, 2011, surged 86.4% to RM264.6 million from RM141.9 million a year ago, underpinned by improvements in

the quarter ended March this year, stood at 19.95 sen versus 15.73 sen for 2010. No dividend was declared for the quarter under review.

For the nine months, HLBB's net profit rose 22.04% to RM838.3 million from RM686.9 million. For the nine months of FY11 revenue was 11.9% higher at RM1.72 billion compared with RM1.54 billion a year earlier. HLBB is 63.51%-owned by HLFG.

In a press release yesterday, HLBB

tum, rising by 10% compared with the sector growth rate of 6%.

Moving forward, she said domestic sentiments continued to improve and the underlying fundamentals would provide good headroom support as the country transitioned into a higher-income economy.

"Effective May 6, 2011, EON Bank group — consisting of EON Bank Bhd, EON Capital Bhd, Islamic Bank Bhd and MIMB Investment Bank

HLFG's foreign play unfolds

Profit contribution from Bank of Chengdu (RM mil)

售股換股合併・總值15.59億

豐隆三井住友聯盟

Strategic Partnership Signing Ceremo

Hong Leong, Mitsui set for deal

KUALA LUMPUR: Hong Leong Financial Group (HLFG) and Mitsui Sumitomo Insurance Co will make a "material announcement" today, a statement issued on behalf of HLFG said yesterday.

HLFG stock was suspended on Bursa Malaysia.

Leong's non-life insurance operations in Malaysia which would be spun off and integrated with Mitsui Sumitomo's unit.

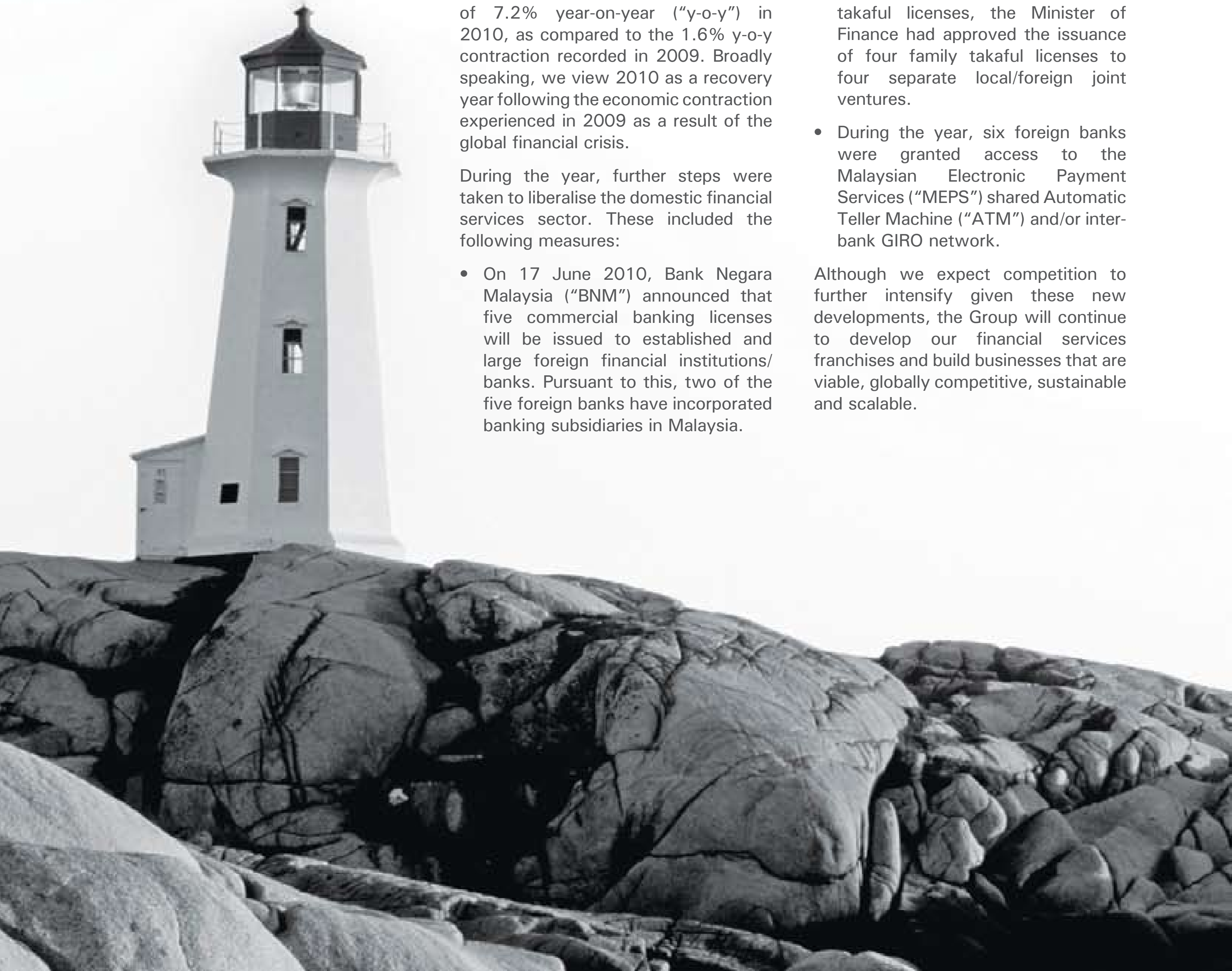
With the Japanese non-life insurance market shrinking, Mitsui Sumitomo is seeking to expand its overseas operations by establishing alliances with counterparts in emerging nations, the paper said.

Hong Leong in RM1.56b tie-up with Japan insurer

CHAIRMAN'S STATEMENT

Dear shareholders and stakeholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Hong Leong Financial Group Berhad ("HLFG" or "the Group") for the financial year ("FY") ended 30 June 2011 ("FY11").



OVERALL BUSINESS ENVIRONMENT

The Malaysian economy recorded real gross domestic product ("GDP") of RM560 billion in calendar year 2010. This represented an expansion of 7.2% year-on-year ("y-o-y") in 2010, as compared to the 1.6% y-o-y contraction recorded in 2009. Broadly speaking, we view 2010 as a recovery year following the economic contraction experienced in 2009 as a result of the global financial crisis.

During the year, further steps were taken to liberalise the domestic financial services sector. These included the following measures:

- On 17 June 2010, Bank Negara Malaysia ("BNM") announced that five commercial banking licenses will be issued to established and large foreign financial institutions/banks. Pursuant to this, two of the five foreign banks have incorporated banking subsidiaries in Malaysia.
- On 1 September 2010, BNM announced that pursuant to the announcement made on 27 April 2009 on the issuance of two family takaful licenses, the Minister of Finance had approved the issuance of four family takaful licenses to four separate local/foreign joint ventures.
- During the year, six foreign banks were granted access to the Malaysian Electronic Payment Services ("MEPS") shared Automatic Teller Machine ("ATM") and/or inter-bank GIRO network.

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.

CHAIRMAN'S STATEMENT
(continued)

PERFORMANCE REVIEW

FY11 represents another record year for the HLFG Group, the sixth consecutive year of record financial performance. HLFG Group profit before taxation grew 67% to RM2,419 million in FY11. Group profit attributable to owners of the parent ("PAOP") grew 94% to RM1,672 million. This record financial performance was driven by one-off gains, and also importantly, strong performance from all three core businesses comprising banking, insurance and investment banking.

The main non-recurring items involved a RM619 million gain arising from the disposal by Hong Leong Assurance Berhad ("HLA") of its general insurance business to MSIG Insurance (M) Berhad ("MSIM") and a RM175 million surplus transfer from HLA's Life Fund. After excluding all non-recurring items from both this year and the prior year, Group PAOP increased by 28% y-o-y on a normalised basis showing the strength of the underlying business performance without the one-offs. Group PAOP was RM1,672 million in FY11, representing earnings per share ("EPS") of 161.2 sen.

Apart from the strong growth in operating earnings (see further details later), one key transaction which has driven our FY11 financial performance was the completion of our Strategic Partnership with Mitsui Sumitomo Insurance Company, Limited ("MSIJ") of Japan on 1 October 2010. This had two major effects on our financial statements:

- A gain of RM619 million recorded in our Income Statement, as mentioned above; and
- A gain of circa RM766 million (net of cost of investment), recognised in our reserves/equity, arising from the Life Equity Divestment.

Hence, Group Shareholders' Equity grew by a hefty 43.1% y-o-y to RM7.47 billion as at 30 June 2011, translating to net assets per share of RM7.10.

Headline EPS grew by 94% y-o-y to 161.2 sen and Return on Equity ("ROE") increased from 17.7% in FY10 to 26.4% in FY11.

The other major transaction was the completion of the acquisition of the assets and liabilities of EON Capital on 6 May 2011. Although this roughly added just under two months of EON's earnings to the Group, this was also largely negated by the charge out of one-time transactional and professional fees relating to this deal. However, what this means is that we can now look forward to a much higher base of recurring earnings on which we can grow for the future.

Banking

The Banking Division of the Group, Hong Leong Bank Group ("HLB" or "the Bank"), registered a profit before taxation of RM1,411.9 million for the financial year ended 30 June 2011 as compared to RM1,213.4 million in the previous year reflecting growth of 16.4% y-o-y.

Apart from impressive organic growth, this increase has also been fuelled by higher contributions from our 20% stake in our Chinese associate, the Bank of Chengdu ("BOCD"). BOCD has been one of the fastest growing divisions of HLB and in FY11, BOCD's contribution grew by 47.0% y-o-y to RM211.0 million or 18.6% of HLB's profit after taxation in FY11.

Asset quality remained supportive, with the gross non-performing loan ("NPL") ratio rising marginally from 1.9% in FY10 to 2.2% in FY11, the second lowest among the domestic banking groups. The main reason for the marginal increase in our gross NPL ratio was the consolidation of EON Bank Berhad's loan book into our balance sheet since 6 May 2011. Despite the increase in NPLs arising from the EON Capital Acquisition, our loan loss coverage improved from 118% in June 2010 to 119% as at June 2011.

Earnings per share increased by 12.2% from 69.6 sen in the previous year to 78.1 sen in FY11. Overall, return on equity was maintained at a creditable 16.2%.

As mentioned earlier, the main event which transformed HLB during the year was the completion of the acquisition of the entire assets and liabilities of EON Capital Berhad for a cash consideration of RM5.06 billion or approximately RM7.30 per EON Capital Berhad share ("EON Capital Acquisition") on 6 May 2011.

The EON Capital Acquisition has substantially expanded HLB's balance sheet. Total assets have grown by 72% y-o-y to RM145 billion as at 30 June 2011. Net loans have grown by 117% y-o-y to RM82 billion. In tandem with this, customer deposits have grown by 65% y-o-y to RM115 billion. The Bank's strong deposit franchise continues to be a key competitive advantage of the Bank, providing it with a stable and reasonably priced source of funding.

CHAIRMAN'S STATEMENT
(continued)

The acquisition has made HLB's balance sheet more efficient, with HLB's loan/deposit ratio rising from 55.3% in FY10 to 73.3% as at 30 June 2011. This means that a larger proportion of HLB's deposits are being deployed in higher-yielding loans, instead of being invested in lower yielding securities. The acquisition has also re-established HLB as a major player in the hire purchase market. In due course, with the integration process completed, we will expect to realise the synergies arising from the acquisition, both on the revenue side (cross-selling) as well as on the cost side, and also use the much larger business and customer base to propel HLB to a higher level of growth and market share going forward.

The acquisition has understandably reduced the Bank's capital ratios, with the Bank's Capital Adequacy Ratio ("CAR") falling from 13.6% as at June 2010 to 11.6% as at June 2011. Although the Bank's CAR is still healthy and well above the regulatory minimum, the management has proactively decided to shore up the Bank's capital ratios further via a proposed renounceable rights issue to raise gross proceeds of up to RM2,600 million ("Proposed Rights Issue"). The Proposed Rights Issue has received shareholders' approval on 21 July 2011 and is expected to be completed by October 2011. The Proposed Rights Issue will leave the Bank in good stead when the new Basel 3 capital framework is fully implemented as well as place the Bank in a favourable position to look at further opportunities.

Insurance

Over the last few years, we have transformed the Insurance Division into a cohesive, focused and dynamic collection of insurance businesses. We have in place an experienced and dynamic management team in Hong Leong Assurance.

We also took steps to rationalise the corporate structure with the establishment of an insurance holding company, 100%-owned HLA Holdings Sdn Bhd ("HLAH"), which was completed on 1 January 2010. The grouping of all of the Group's insurance and Takaful interests under a single holding company has served to better utilise our management resources and expertise as well as to create synergies from the utilisation of Group resources by all of our insurance units. HLAH now holds all of the Group's insurance and Takaful interests, namely:

- 70% equity interest in life insurance company Hong Leong Assurance Berhad.
- 30% equity interest in general insurance company MSIG Insurance (M) Berhad.
- 65% equity interest in family and general takaful operator Hong Leong MSIG Takaful Berhad.
- 100% equity interest in Hong Kong general insurance company Hong Leong Insurance (Asia) Limited.

Another important step which was completed on 1 October 2010 was our Strategic Partnership between HLAH and MSIJ in relation to the insurance businesses of HLA and MSIM effected by way of:

- The 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, satisfied by the issuance of new MSIM shares equivalent to 30% of the enlarged paid-up capital of MSIM. ("Non-Life Business Merger"); and
- The disposal by HLAH of 30% equity interest in HLA to MSIJ for a cash consideration of RM940 million ("Life Equity Divestment").

The 35% equity interest in our Takaful joint venture was effectively transferred from Tokio Marine Japan to MSIJ on 1 April 2011. This enables us to have a single, common strategic partner in all of our insurance and takaful businesses.

After completion of the Strategic Partnership, HLA surrendered its composite insurance license and now holds a life insurance license. FY11 was another record year for HLA with profit before taxation growing 43.9% y-o-y to RM288.2 million. Gross life premiums scaled a new record of RM1.31 billion (+21.9% y-o-y). The driving force behind our record premiums and earnings has been a steady expansion in our agency force over the last five years. As at 30 June 2011, HLA had over 7,800 insurance agents. Within HLA's target segment of traditional life insurance, HLA is now the largest domestic insurer as well as a top 2 insurer among all local and foreign insurers, as measured by new business annualised regular premiums.

CHAIRMAN'S STATEMENT
(continued)

The completion of the Strategic Partnership has also changed the earnings profile of our general insurance business. While we previously held a 100% interest in HLA's general insurance business, this has now been replaced by associate contribution from HLAH's 30% equity interest in MSIM. This has had two major effects, namely:

- We have swapped a 100% interest in HLA's mid-tier general insurance operation for a 30% equity interest in MSIM, a top 2 general insurer in Malaysia; and
- The nine-month 30% contribution from MSIM of RM39.9 million has easily surpassed the full-year contribution of 100% interest in HLA's general insurance business of RM24.7 million in FY10.

Investment Banking

We have also transformed the businesses housed under Hong Leong Capital Berhad ("HLCB"). This started in January 2009 when HLCB's 100%-owned subsidiary Hong Leong Investment Bank Berhad ("HLIB") attained 'investment bank' status. A new management and investment banking team was brought in late 2009/early 2010. We have begun to reap the fruits of these initiatives in the current financial year as HLIB has been transformed from a pure stockbroker to having an earnings profile where the investment banking business contributes the lion's share of profits.

In FY11, the Investment Banking business (excluding stockbroking) contributed 58% of HLCB's profit before taxation from a negligible contribution in the previous financial year. Overall, HLCB's PAOP has expanded 170% y-o-y to RM38.5 million for FY11.

HONG LEONG FINANCIAL GROUP – TOWARDS ACHIEVING OUR VISION

In a nutshell, FY11 was a watershed year. We had not only achieved impressive organic business growth across all our major business divisions, but also completed two major M&A transactions, which catapulted HLB from the sixth largest domestic commercial bank to the fourth largest by assets, financed through realising in part our undervalued insurance businesses via a partnership with the largest General Insurer in Japan; all this done without HLFG having to undertake a cash call on our shareholders.

In short, we have taken concrete steps this year to become bigger, stronger and more profitable in our continuing journey as a financial services group.

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, amidst an outlook of an increasingly difficult global economic environment. 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 Group has increased the net dividend per share ("DPS") paid to shareholders for past financial years.

The Board of Directors, during the financial year under review had declared and paid a total net dividend per share ("DPS") of 26.4 sen, 41% higher than the 18.75 sen net DPS paid last year.

This comprised:

- 1st interim dividend of 10 sen per share (6.3 sen less 25% income tax and 3.7 sen combination of tax exempt and single tier) paid on 16 December 2010 (FY10: 9 sen per share less 25% tax).
- 2nd interim single tier dividend of 15 sen per share paid on 1 July 2011 (FY10: 8 sen per share less 25% tax and 6 sen per share tax exempt).
- Special single tier dividend of 3 sen per share paid on 1 July 2011.

As with last year, the Board has decided not to recommend a final dividend for the financial year ended 30 June 2011.

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

23 September 2011

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to present the President/CEO's report for the financial year ("FY") ended 30 June 2011. 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 67% growth in profit before taxation to RM2,419 million for the financial year ended 30 June 2011. Profit attributable to owners of the parent ("PAOP") grew by 94% year-on-year ("y-o-y") to RM1,672 million, which represented the sixth consecutive record year for the Group in terms of earnings. Correspondingly, the return on average equity increased from 17.7% in FY10 to 26.4% in FY11. Earnings per share improved by 94% to 161.2 sen from 83.1 sen in the previous financial year.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

As alluded to earlier, we completed two major transactions during the financial year, the Strategic Partnership with MSIJ and the EON Capital Acquisition. These transactions coupled with other smaller one-off items resulted in some non-recurring items which have impacted our financial statements. It is hence more meaningful to review our 'normalised' numbers, which provides a better gauge of the trends of our recurring, operating performance.

Over and above these one-off gains, our 'normalised' Group profit before taxation grew 25.4% y-o-y to RM1,632m. 'Normalised' Group PAOP grew by 28.0% y-o-y to RM884m. Overall, 'normalised' EPS grew by 27.8% y-o-y to 85.3 sen. This represents a strong organic business performance which came from all three business divisions. The 'normalised' earnings at all of our three key businesses of commercial banking, insurance and investment banking achieved organic growth this year of 17.7%, 65.4% and 147.0% respectively.

The two transactions completed this year have also substantially transformed our balance sheet. The EON Capital Acquisition was a major contributory factor to the 66% y-o-y growth in total assets of the Group to RM156 billion. Group shareholders' funds grew by 43% y-o-y to RM7.47 billion, and a major contributory reason for this surge was the Strategic Partnership with MSIJ which crystallized substantial gains both at the Income Statement as well as in our reserves. Book value per share has grown by 43% y-o-y to RM7.10 per share as at 30 June 2011.

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:

- The completion of the EON Capital Acquisition has raised HLB from the sixth to the fourth largest domestic commercial bank by asset size. The merged bank's branch network is expected to provide a solid foundation for the further growth of the enlarged bank. The EON Capital Acquisition has re-established HLB as a major player in the hire purchase business, with a 12.5% market share.

- The EON Capital Acquisition has also cemented our market position in our target Consumer Banking segments. HLB has currently the 4th largest mortgage loan book, as well as having leading positions within the credit card receivables and unsecured personal loans segments.

- The merger of EON Bank and HLB continues to progress well. The assets and liabilities of EON Bank were legally vested to HLB on 1 July 2011. We have also achieved 'Customer Day 1' on 12 August 2011, less than 100 days after the completion of the EON Capital Acquisition. 'Customer Day 1' entails all EON Bank and HLB customers being able to conduct their banking at all ex-EON Bank and HLB branches and self-service terminals. We have also released our first Merger Progress Report and 100-Day Achievement Report in August 2011 at hlb.com.my should you require further details on the merger progress.

- HLB's competitive advantage of having a strong deposit franchise continues to grow in strength. Customer deposits grew 65% y-o-y to RM115 billion, in no small part due to the completion of the EON Capital Acquisition. The EON Capital Acquisition has also increased HLB's loan/deposit ratio from 55.3% to 73.3% instantly making HLB's balance sheet more efficient. This still provides ample room to expand our loan book. Low cost current and savings account ("CASA") deposits now constitute 24% of total customer deposits.

- The Bank of Chengdu Co. Ltd. ("BOCD") has grown from strength to strength. Associate contributions from BOCD increased 47% y-o-y to RM211.0 million. BOCD now contributes 18.6% of HLB's profit after taxation and is the 6th largest commercial bank in Chengdu in terms of loan and deposit market share. Profit before taxation has crossed the RMB2 billion mark to RMB2.05 billion in its financial year ended 31 December 2010 whilst total assets have crossed the RMB150 billion mark to RMB151 billion. Return on equity increased from 13.9% in FY09 to 18.0% in FY10, an increase of 4.1%. BOCD continues to have excellent asset quality (Gross NPL ratio 0.7%. Loan loss coverage 361%).

- HLB's gross impaired loans ratio, the second lowest among the domestic commercial banks, was 2.2% as at June 2011. Both HLB's gross and net impaired loans ratio remain well below industry levels. Loan loss coverage increased marginally from 118% to 119%, meaning that all of our impaired loans have been fully provided for.

- HLB's profitability remains strong, with ROE for FY11 standing at 16.2%, the third consecutive year where ROE has exceeded 16%.

- Organic growth momentum continued, with HLB's (excluding EON Bank) loan book growing by 16.5% y-o-y in FY11, above industry loan growth of 13.5% during the same period. HLB's loan growth was evenly spread among our mortgage, credit card and working capital (primarily SME) portfolios. EON Bank's loan book grew by 10.7% y-o-y to 30 June 2011.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

- 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") was completed on 1 October 2010. The Strategic Partnership allows the Group to unlock value through the disposal of its 30% equity interest in HLA. In addition, it allows us to swap our 100% equity interest in a mid-tier general insurance operation for a 30% equity interest in MSIM, which is the second largest general insurance company in Malaysia, post completion of its merger with HLA's general business.

- After completion of the Strategic Partnership, HLA is now focused solely on the life insurance business. Here the organic results have been encouraging. The main driving force has been the growth in our agency force (5-year CAGR of 24.6%) to over 7,800 agents as at 30 June 2011.

- The efficient management of our agency force means that each agent has to sell a minimum number of policies to maintain their status as an HLA agent. Hence gross life premiums grew 21.9% y-o-y to RM1.3 billion in FY11, the second consecutive year where gross life premiums exceeded the RM1 billion mark.

- HLA is now the largest domestic life insurer and occupies a top 4 position among all life insurers within all regular premium segments. Within our target segment of Traditional Life insurance, we are not only the largest domestic life insurer but a top 2 life insurer among all local and foreign insurers with a market share of circa 15%.

- FY11 was a breakthrough year for our Investment Banking business held under Hong Leong Capital Bhd, after the foundations for sustainable growth were put into place in FY09 and FY10. Pretax profit rose 147% y-o-y to RM50.5m. More importantly, contribution from our investment banking business is now the major earnings contributor, contributing 58% of HLC's pretax profit. The more stable Investment Banking business has changed the earnings profile of HLC as compared previously to the standalone stockbroking business which is highly cyclical.

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 the successful integration of its business with that of the ex-EON Bank.

OTHER DEVELOPMENTS

We have earlier elaborated on the EON Capital Acquisition and the Strategic Partnership with MSIJ. In addition to these, I am pleased to summarise the key corporate developments which transpired at the HLFG Group during the financial year, which relate mainly to funding.

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

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 5 May 2011, HLB issued the remaining RM1 billion nominal value of Sub Debt, which will mature in 2021.

On 17 March 2011, HLB issued USD300 million in aggregate principal amount of Senior Bonds, which will mature in 2016.

On 5 May 2011, HLB completed its issuance of Non-Innovative Tier 1 Stapled Securities of RM1.4 billion.

On 6 May 2011, HLFG provided a Tier 2 Capital Cumulative Subordinated Loan Facility for the amount of up to RM2.3 billion ("the Facility") to HLB. The Facility is a bridging loan to assist HLB with meeting its Capital Adequacy Ratio ("CAR") regulatory requirements pending the completion of the Proposed Rights Issue. The Facility is expected to be repaid in entirety upon completion of HLB's Proposed Rights Issue.

On 6 September 2011, HLB announced that the ratio for its Proposed Renounceable Rights Issue has been fixed at 1-for-5 at RM8.65 per share. The rights issue will raise gross proceeds of up to RM2,593.3 million and will ensure that HLB's CAR remains healthy after completion of the EON Capital Acquisition. The Proposed Renounceable Rights Issue is expected to be completed by October 2011.

On 4 August 2011, HLFG announced that the Securities Commission had approved a Proposed Master Debt Issuance Programme comprising of:

- A Seven-Year Commercial Paper Programme; and

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW
(continued)

- A Twenty-Year Medium Term Notes Programme of up to RM1.8 billion in nominal value.

("Proposed Master Debt Programme")

Proceeds raised from the Proposed Master Debt Programme will be utilised to repay borrowings, for general investments and/or working capital purposes.

After the Proposed Master Debt Programme has been established, HLFG's existing RM800 million 2007/2014 commercial paper and medium-term notes ("CP/MTN") programme will be retired.

RATING

We are pleased to announce that Malaysian Rating Corporation Berhad ("MARC") in September 2011 affirmed the short-term and long-term credit ratings of HLFG's RM800 million (2007/2014) CP/MTN Programme at AA/MARC-1. The same AA/MARC-1 credit ratings have also been assigned to HLFG's Proposed Master Debt Programme. The rating outlook is stable. HLFG holds the third highest credit rating within MARC's rating scale.

APPRECIATION

Last and not least, I would like to take this opportunity to express my gratitude to the Board of Directors for their support and guidance, and the management, 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

23 September 2011

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, our customers, our employees and our 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.

SOCIAL SUSTAINABILITY

Employee Development and Welfare

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

The Group's Graduate Development Programme aims to identify and develop young graduates from various disciplines like engineering, research & development, sales & marketing, finance, human resource and IT into talents to support the growth of the Group. The programme incorporates classroom training, on-the-job familiarisation, projects or learning assignments as well as mentoring.

For the non-executives, various in-house and external programmes are 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 30,000 spread across North Asia and Southeast Asia, and the UK, the Group develops talent regardless of race, gender or religious belief. Employee 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 and social initiatives. In this regard, various initiatives such as sports activities, social events and family day outings, were carried out with the full support and commitment of the employees throughout the financial year.

Environmental Preservation

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

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

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.

CORPORATE SOCIAL RESPONSIBILITY
(continued)

"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."

Organised by the World Wildlife Fund, Earth Hour was conceived in Sydney in 2007. Since then, many other cities around the world have adopted the event which is 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 Hong Leong Foundation ("Foundation"), the charitable arm of Hong Leong Group. Since its incorporation in 1992, the Foundation's programmes have been funded by contributions from Group companies and focuses on education and community welfare as its key thrusts.

Scholarship

The Foundation's Scholarship Programme benefits academically outstanding Malaysian students from low-income families and students with disabilities. The Foundation believes that providing scholarships is about providing opportunities – giving students the chance to have the higher education necessary to break the cycle of poverty.

Over RM2 million is allocated each year for diploma and undergraduate studies at local universities and selected institutions of higher learning within Malaysia. 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.

A separate fund has also been set aside for scholarship grants to deserving children of Group employees .

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

After School Care Program

In a competitive and fast-paced society, latchkey children from under-served areas can get left behind academically. The After School Care Programme with the cooperation of several participating schools, caters to this group of children. The programme provides homework, tutoring, revision guidance and a hot meal.

The Foundation currently has projects in Selangor, Negeri Sembilan, Johor and Sabah.

School Building Fund

To enhance existing facilities for a better learning environment, the Foundation has made donations to various academic and vocational training institutions nationwide.

Community Welfare

Under the Foundation's Community Welfare Programme, contributions in cash and in-kind are distributed to charities nationwide.

CORPORATE SOCIAL RESPONSIBILITY
(continued)

For this financial year, contributions amounting to about RM2 million were made, among others, to Pertubuhan Keluarga Orang-Orang Bermasalah Pembelajaran Wilayah Persekutuan dan Selangor, Perak Association for Intellectually Disabled, Vinashini Home Seremban, Women's Aid Organisation, Home For the Aged (CWS) Simee and Sabah Cheshire Home.

Community Partner Programme

Our Community Partner Programme is based on the dual ideals of capacity building and empowerment. We work with a partner for a period of three years with an exit strategy. The aim of this programme is to provide holistic support from a wide range of issues from Human Resource to media to funding sustainability. At present, the Foundation works with our community partner, Science Of Life 24/7.

Small Enterprise Programme

The people behind the Group are entrepreneurs and we seek to propagate this same spirit of entrepreneurship to the community.

This year, our Small Enterprise Programme supported Silent Teddies Bakery, a bakery project initiated by the Community Service Center for the Deaf. We have in the past supported United Voice's Art Gallery, a charity that works with people with learning disabilities, Good Shepherd Bakery, a charity that offers a half way home for gender based violence, micro finance for the single mothers of Chow Kit through Yayasan Nur Salam and people living with HIV with the Malaysian Aids Council.

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 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 Lim Lean See

Mr Saw Kok Wei

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

"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."

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/ Non-Independent

Aged 68, YBhg 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.

YBhg 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 Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) ("HLCB"), companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"); Chairman of Hong Leong Assurance Berhad ("HLA"), Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong Foundation; and a member of the Board of Trustees of The Community Chest, all public companies.

BOARD OF DIRECTORS' PROFILE
(continued)

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

Aged 55, 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 27 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 HLCB, both companies listed on the Main Market of Bursa Securities and HLA, HLISB, Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad) and Hong Leong Investment Bank Berhad ("HLIB"), all public companies.

MR QUEK KON SEAN
Executive Director/ Non-Independent

Aged 31, 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 HLCB, both companies listed on the Main Market of Bursa Securities and HLA, a public company.

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

Aged 75, 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 Board Audit and Risk Management Committee ("BARMC"), RC and NC of HLFG.

YBhg Tan Sri Khalid is also a Director of HLCB, a company listed on the Main Market of Bursa Securities, and HLIB, a public company.

BOARD OF DIRECTORS' PROFILE
(continued)

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

Aged 76, 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.

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

Aged 66, 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 Wing Tai Malaysia Berhad (formerly known as 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.

MS YVONNE CHIA
Non-Executive Director/ Non-Independent

Aged 58, Ms Yvonne Chia, a Malaysian, an Economics graduate, has more than 25 years experience in the financial services industry, having held leading positions in foreign and local institutions. She started her career in Bank of America and held various roles in Asia. In 1996, she joined RHB Bank Berhad ("RHB") as CEO and under her helm, she brought RHB from 6th to 3rd largest bank in Malaysia. Ms Chia was appointed an Executive Director of HLB on 17 March 2003. She was re-designated as Group Managing Director/Chief Executive of HLB on 10 November 2003 and had led the growth of HLB to be the 4th largest bank in Malaysia in May 2011.

Ms Chia is also a Certified Risk Professional (CRP). In 2005, she was appointed to the Wharton Fellows, and in 2008, CNBC nominated her as a finalist in the Asia Business Leaders Awards.

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

Ms Chia is 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 HLISB and MIMB Investment Bank Berhad ("MIMB"), both public companies.

BOARD OF DIRECTORS' PROFILE
(continued)

MS LIM TAU KIEN
Non-Executive Director/ Independent

Aged 55, 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 and is a member of the BARMC and NC of HLFG.

MS LIM LEAN SEE
Non-Executive Director/ Independent

Aged 58, Ms Lim Lean See, a Malaysian, holds an Associateship in Accounting and an Associateship in Secretarial and Administrative Practice both from the Curtin University, Australia. Her professional qualifications include being a Fellow of the Australian Society of Certified Practicing Accountants, Registered Accountant with the Malaysian Institute of Accountants, a Trade Member of Financial Planning Association of Malaysia and a member of the Institut Bank-Bank Malaysia.

Ms Lim has 33 years experience in the banking industry and has held various senior positions including the Head of Corporate Banking and Head of Business Banking Division, the last being the Chief Representative of a foreign bank Representative Office with the corporate rank of an Executive Director.

Ms Lim was appointed to the Board of HLFG on 22 August 2011 and she is a member of the NC and RC of HLFG.

Ms Lim is also a Director of HLB, a company listed on the Main Market of Bursa Securities and MIMB, a public company.

MR SAW KOK WEI
Non-Executive Director/ Independent

Aged 48, Mr Saw Kok Wei, a Malaysian, holds a B.Sc (Hons) in Accounting and Finance degree from the University of Warwick, United Kingdom. Mr Saw has been with Electrolux Major Appliances – Asia Pacific for seven years since 2004 and is currently the Deputy Head of Strategy, Asia Pacific, based in Singapore. Prior to his current position, Mr Saw was the Chief Financial Officer of Electrolux China, based in Shanghai from 2008 to June 2011 where he was responsible for the finance, IT, legal and supply chain functions. From 2007 to 2008, he was the General Manager of P.T. Electrolux Indonesia, where he was the head of Electrolux's Indonesia sales company and before that from 2004 to 2006, he was the Vice President, Finance & Administration – East Asia.

Before joining Electrolux, Mr Saw was with Merck Sharp & Dohme (I.A.) Corp from 2001 to 2003 and Nike Southeast Asia from 1999 to 2001, where he held the position of Finance Director in both companies.

Mr Saw was appointed to the Board of HLFG on 22 August 2011 and is a member of the BARMC and NC of HLFG.

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.

4. **Attendance of Directors**
   Details of Board meeting attendance of each director are disclosed in the Statement on Corporate Governance and Internal Control in the Annual Report.

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 ("BARMC") on 29 August 2001.

COMPOSITION

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

Ms Lim Tau Kien
(Independent Non-Executive Director)
(Appointed on 26 October 2010)

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

Mr Saw Kok Wei
(Independent Non-Executive Director)
(Appointed on 22 August 2011)

YBhg Dato' Haji Kamarulzaman bin Mohammed
(Independent Non-Executive Director)
(Retired on 26 October 2010)

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 auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To review the assistance given by the officers of HLFG and its subsidiaries ("the Group") to the external auditors.
- To review the quarterly reports and annual financial statements of the Company and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit functions.
- To review the report and findings of the internal audit department including any findings of internal investigation and the management's response thereto.
- To review the adequacy and integrity of internal control systems, including risk management and management information system.
- To review and monitor the business and financial risks facing the Group and to ensure that all high impact risks are adequately managed at various levels within the Group.
- To review any related party transactions that might arise within the Company or the Group.
- Other functions as may be agreed to by the BARMC and the Board.

AUTHORITY

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

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

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
(continued)

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 2011 ("FYE 2011"), 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
*Ms Lim Tau Kien	2/2
Dr Poh Soon Sim	4/4
^YBhg Dato' Haji Kamarulzaman bin Mohammed	2/2

Notes:
* Appointed on 26 October 2010
^ Retired on 26 October 2010

Mr Saw Kok Wei was appointed to the BARMC after the close of the FYE 2011 and as such did not attend any BARMC meeting held during the FYE 2011.

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

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

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

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

INTERNAL AUDIT

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

During the FYE 2011, 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 FYE 2011 was RM5.47 million.

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

CORPORATE GOVERNANCE & INTERNAL CONTROL

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

~ Finance Committee on Corporate Governance

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

A. DIRECTORS

I The Board

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

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

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

II Board Balance

The Board comprises 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.

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.

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

A. DIRECTORS (continued)

III Board Meetings

The Board met five (5) times during the financial year ended 30 June 2011 ("FYE 2011") with timely notices of issues to be discussed. Details of attendance of each director are as follows:-

Directors	Attendance
YBhg Tan Sri Quek Leng Chan	5/5
Mr Choong Yee How	5/5
Mr Quek Kon Sean	5/5
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	5/5
YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)	4/5
Dr Poh Soon Sim	5/5
Ms Yvonne Chia	5/5
Ms Lim Tau Kien	5/5

Ms Lim Lean See and Mr Saw Kok Wei were appointed to the Board after the close of the FYE 2011 and as such did not attend any of the Board meetings held during the FYE 2011.

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.

V Appointments to the Board

The Nominating Committee ("NC") was established on 30 October 2008 and the members who have held office since the date of the last report and at the date of this report 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)

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 Lim Tau Kien
(Independent Non-Executive Director)
(Appointed on 22 August 2011)

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

A. DIRECTORS (continued)

V Appointments to the Board (continued)

Ms Lim Lean See
(Independent Non-Executive Director)
(Appointed on 22 August 2011)

Mr Saw Kok Wei
(Independent Non-Executive Director)
(Appointed on 22 August 2011)

Ms Leong Bee Lian
(Independent Non-Executive Director)
(Appointed on 26 October 2010 and resigned on 23 March 2011)

YBhg Dato' Haji Kamarulzaman bin Mohammed
(Independent Non-Executive Director)
(Retired on 26 October 2010)

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.

In connection with the appointment and re-appointment of Directors and Chief Executive Officers of the Company, the NC is guided by a Fit and Proper Policy.

The Fit and Proper Policy includes a policy in relation to the tenure for Independent Directors of the Company ("Tenure Policy"). Pursuant to the Tenure Policy, an independent director who had served on the board of directors of any company in the Hong Leong Financial Group Berhad and/or its subsidiaries for a period of 12 years continuously or more shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an independent director, upon:-

a) expiry of his term of office approved by BNM; or

b) the due date for his retirement either by rotation pursuant to the Articles of Association of the Company or pursuant to Section 129(2) of the Companies Act, 1965 as the case may be.

If the intention of the independent director is to continue in office, the NC shall consider the re-appointment based on the assessment criteria and guidelines set out in the Fit & Proper Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be submitted to BNM to seek clearance, in accordance with the BNM Guidelines.

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

A. DIRECTORS (continued)

V Appointments to the Board (continued)

During the FYE 2011, one (1) NC meeting was held and the attendance of the NC members was as follows:-

Members	Attendance
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	1/1
YBhg Tan Sri Quek Leng Chan	1/1
Dr Poh Soon Sim	1/1
YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)	1/1
^YBhg Dato' Haji Kamarulzaman bin Mohammed	1/1

Note:
^ Retired on 26 October 2010

Ms Leong Bee Lian was appointed to the NC on 26 October 2010 and resigned on 23 March 2011 and there were no NC meetings held during this period. Ms Lim Tau Kien, Ms Lim Lean See and Mr Saw Kok Wei were appointed to the NC after the close of the FYE 2011 and as such did not attend any NC meeting held during the FYE 2011.

The NC reviewed the membership of the Board, the professional qualifications and experience of the directors and was satisfied that the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills was adequate. The NC also reviewed the performance of the Board against its terms of reference and was satisfied that the Board was competent and effective in discharging its functions.

VI Re-appointment and Re-election

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

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

VII Training And Education

All Directors of the Company have completed the Mandatory Accreditation Programme ("MAP"), save for Mr Saw Kok Wei who was appointed to the Board on 22 August 2011 and has registered to attend the MAP.

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 FYE 2011, 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.

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

A. DIRECTORS (continued)

VII Training And Education (continued)

During the FYE 2011, the Directors of the Company, attended the following training programmes, seminars, briefings and/or workshops:-

- BNM – Financial Institutions Directors' Education Programme
- Corporate Governance – The Holistic Board
- Securities Commission – Bursa Malaysia Corporate Governance Week 2010 – Towards Corporate Governance Excellence:
  - 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
- Portfolio Risk Management In A Diversified Company
- Building A Board & Management Relationship That Adds Real Value & Analysis Of What The Analysts Are Saying & Why
- The Toyota Case Study & Portfolio Risk Management In A Diversified Company
- "Banking Insights" – Everything You Wanted To Know About Banking But Didn't Dare Ask
- Bursa Malaysia – "Assessing The Risk And Control Environment"
- BCG Asia Pacific Financial Institutions Conference (Hong Kong)
- APSCA Asian Payment Card Forum
- CNBC's Asia Business Leaders Awards Moderating Panel With Maria Bartiromo (Singapore)
- Malaysia-International Chinese Business Forum
- Women In Leadership Forum Asia
- Regulator Industry Dialogue "10 Years Assessment On Current Financial Sector Masterplan: Preparing The Industry & Implications For New Blueprint"
- BNM Annual Report 2010/Financial Stability And Payment Systems 2010 Briefing
- Malaysia-China Chamber Of Commerce – Guangxi-Malaysia Investment Seminar
- Malaysia China Trade And Investment Cooperation Forum
- 15th Malaysian Banking Summit
- GLC Open Day 2011: A New Corporate DNA Malaysia – Malaysia Inc V3
- Bursa Malaysia Evening Talks On Corporate Governance: Risk Management: Things Can Still Go Wrong
- Suruhanjaya Syarikat Malaysia – Talk On "Challenges In International Financial Reporting Standards"
- Bursa Malaysia – Sustainability Programme For Corporate Malaysia (Consumer Products, Finance, Technology)

B. DIRECTORS' REMUNERATION

I Level and make-up of remuneration

The Remuneration Committee ("RC") was established on 30 October 2008 and the members who have held office since the date of the last report and at the date of this report 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)

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

Ms Lim Lean See
(Independent Non-Executive Director)
(Appointed on 22 August 2011)

YBhg Dato' Haji Kamarulzaman bin Mohammed
(Independent Non-Executive Director)
(Retired on 26 October 2010)

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

B. DIRECTORS' REMUNERATION (continued)

I Level and make-up of remuneration (continued)

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 FYE 2011, one (1) RC meeting was held and the attendance of the RC members was as follows:-

Members	Attendance
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	1/1
YBhg Tan Sri Quek Leng Chan	1/1
Dr Poh Soon Sim	1/1

YBhg Dato' Haji Kamarulzaman bin Mohammed retired on 26 October 2010 and there were no RC meeting held during his term of office. Ms Lim Lean See was appointed to the RC after the close of the FYE 2011 and as such did not attend any RC meeting held during the FYE 2011.

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.

III Disclosure

The aggregate remuneration of Directors (including Directors who have been resigned/retired during the financial year, and remuneration earned as directors of subsidiaries) for the FYE 2011 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	606,398	5,028,062	5,634,460
Non-Executive Directors	1,100,738	4,100,236	5,200,974

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

B. DIRECTORS' REMUNERATION (continued)

III Disclosure (continued)

The number of directors whose remuneration (including directors who have been resigned/retired during the FYE 2011) falls into the following bands is as follows:

Range Of Remuneration (RM)	Executive	Non-Executive
1 – 50,000	-	1
50,001 – 100,000	-	4
250,001 – 300,000	-	1
450,001 – 500,000	-	1
900,001 – 950,000	1	-
4,100,001 – 4,150,000	-	1
4,650,001 – 4,700,000	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, 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.

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 four (4) Non-Executive Directors. The primary responsibilities of the BARMC are set out in the BARMC Report.

The BARMC met four (4) times during the FYE 2011. 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 BARMC meetings, on the invitation of the BARMC, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the BARMC meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the BARMC 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 BARMC meetings are recorded in the minutes of the BARMC meeting. Where the BARMC is considering a matter in which a BARMC member has an interest, such member abstains from deliberating and voting on the subject matter.

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

D. ACCOUNTABILITY AND AUDIT (continued)

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.

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 2011 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.

CORPORATE GOVERNANCE & INTERNAL CONTROL
(continued)

E. STATEMENT ON INTERNAL CONTROL (continued)

II The Risk Management Framework (continued)

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.

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, liquidity risks, 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 FYE 2011, 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 2011

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 2011.

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 and takaful business, investment banking, futures and stock broking and asset management 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	1,671,914	1,083,451
- Non-controlling interests	397,435	-
	2,069,349	1,083,451

DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2010 were as follows:

(a) A first interim dividend of 6.3 sen per share less income tax of 25% and 3.7 sen per share combination of tax exempt and single tier, amounting to RM87,601,242 in respect of the financial year ended 30 June 2011, was paid on 16 December 2010.

(b) A second interim single tier dividend of 15 sen per share, amounting to RM156,074,607 in respect of the financial year ended 30 June 2011, was paid on 1 July 2011.

(c) A special single tier dividend of 3 sen per share, amounting to RM31,214,921 in respect of the financial year ended 30 June 2011, was paid on 1 July 2011.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2011.

DIRECTORS' REPORT

for the financial year ended 30 June 2011
(continued)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 53 to the financial statements.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

Significant events subsequent to the balance sheet date are disclosed in Note 54 to the financial statements.

CREDIT RATING

On 9 September 2011, Malaysian Rating Corporation Berhad ("MARC") has affirmed the rating on HLFG's RM800 million Commercial Paper and Medium Term Notes Programme (CP/MTN) at MARC-1/AA. The rating outlook for the long-term rating is stable. The ratings are based on the continued ability of HLFG's enlarged banking subsidiary, Hong Leong Bank Berhad, to generate strong earnings, the stable financial and operating performance of its insurance business and the well-capitalised positions of both its banking and insurance subsidiaries.

MARC has also assigned a MARC-1/AA rating to HLFG's proposed Commercial Paper and Medium Term Notes Programmes with a combined limit of RM1.8 billion.

Details of the ratings are as follows:

Date accorded	Rating Action	Rating Classification	Definition
RM800 million Commercial Paper and Medium Term Notes Programme			
September 2011	Affirmed	Short term rating : MARC-1	Highest category; indicates a very high likelihood that interest and principal will be paid on a timely basis.
September 2011	Affirmed	Long term rating : AA	Indicates a very strong ability to repay principal and pay interest on a timely basis, with limited incremental risk compared to issues rated in the highest category.
RM1,800 Million Commercial Paper and Medium Term Notes Programmes			
September 2011	Assigned	Short term rating : MARC-1	Highest category; indicates a very high likelihood that interest and principal will be paid on a timely basis.
September 2011	Assigned	Long term rating : AA	Indicates a very strong ability to repay principal and pay interest on a timely basis, with limited incremental risk compared to issues rated in the highest category.

RESERVES AND PROVISIONS

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

DIRECTORS' REPORT

for the financial year ended 30 June 2011
(continued)

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-Executive Non-Independent)*
Mr Choong Yee How	*(President & Chief Executive Officer, Non-Independent)*
Mr Quek Kon Sean	*(Executive Director, Non-Independent)*
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	*(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	*(Independent Non-Executive Director)*
Ms Lim Lean See *(Appointed on 22 August 2011)*	*(Independent Non-Executive Director)*
Mr Saw Kok Wei *(Appointed on 22 August 2011)*	*(Independent Non-Executive Director)*
YBhg Dato' Haji Kamarulzaman bin Mohammed *(Retired on 26 October 2010)*	*(Independent Non-Executive Director)*
Ms Leong Bee Lian *(Resigned on 23 March 2011)*	*(Independent Non-Executive Director)*

In accordance with Article 94 of the Company's Articles of Association, Ms Lim Lean See and Mr Saw Kok Wei retire from the Board and being eligible, offer themselves for re-election.

In accordance with Article 115 of the Company's Articles of Association, YBhg Tan Sri Quek Leng Chan and Mr Quek Kon Sean 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 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 Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, being eligible, had offered himself for re-appointment. YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd) 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 and/or preference shares and/or convertible bonds and/or options over ordinary shares of the Company and/or its 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 1.7.10	Acquired	Sold	As at 30.6.11
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	-	-	390,000
Hong Leong Financial Group Berhad	1.00	4,989,600	-	-	4,989,600
Narra Industries Berhad	1.00	8,150,200	-	-	8,150,200
Guoco Group Limited	USD0.50	1,056,325	-	-	1,056,325
GuocoLand Limited	∞	10,000,000	3,333,333 ≈	-	13,333,333
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 2011
(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 1.7.10	Acquired	Sold	As at 30.6.11
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	26,400 ≈	(26,400) ®	52,800
Hong Leong Bank Berhad	1.00	400,000	-	-	400,000
Malaysian Pacific Industries Berhad	0.50	1,000	19,800 +	-	20,800
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	9,633,780	-	(9,552,500)	81,280
Hong Leong Capital Berhad (formerly known as HLG Capital Berhad)	1.00	1,000	-	-	1,000
Hong Leong Industries Berhad	0.50	1,100,700	551,700 ≈	(550,800) ®	1,101,600
Malaysian Pacific Industries Berhad	0.50	-	413,100 +	-	413,100
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	280,000	492,000 ¥	-	772,000
		5,900,000 *	-	(492,000) *¥	5,408,000 *
GuocoLand (Malaysia) Berhad	0.50	10,000	-	-	10,000
Hong Leong Financial Group Berhad	1.00	10,000	10,000	-	20,000
Interest of Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	1.00	-	960,000 ¥	-	960,000
	1.00	6,800,000 *	-	(960,000) *¥	5,840,000 *
Interest of Mr Quek Kon Sean in:					
Hong Leong Financial Group Berhad	1.00	-	300,000 ¥	-	300,000
	1.00	2,125,000 *	-	(300,000) *¥	1,825,000 *

DIRECTORS' REPORT
for the financial year ended 30 June 2011
(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 1.7.10**	**Acquired**	**Sold**	**As at 30.6.11**
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	13,019,100	50,000	-	13,069,100
Hong Leong Financial Group Berhad	1.00	824,437,300	-	-	824,437,300
Hong Leong Capital Berhad (formerly known as HLG Capital Berhad)	1.00	195,263,227	-	-	195,263,227
Hong Leong Bank Berhad	1.00	967,739,600	603,200	(126,700)	968,216,100
Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad)	1.00	65,000,000	35,000,000	(35,000,000)	65,000,000
Hong Leong Assurance Berhad	1.00	200,000,000	-	(60,000,000)	140,000,000 €
Hong Leong Industries Berhad	0.50	198,269,837 @@	170,935,068 @@♀	(123,068,302) ®@@	246,136,603 @@
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	-	-	17,352,872
	1.00	-	6,941 ##	-	6,941 ##
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
Guocera Tile Industries (Vietnam) Co., Ltd	♦	-	5,286,500	-	5,286,500

DIRECTORS' REPORT

for the financial year ended 30 June 2011
(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 1.7.10	Acquired	Sold	As at 30.6.11
Interests of YBhg Tan Sri Quek Leng Chan in (continued):					
Malaysian Pacific Industries Berhad	0.50	133,601,009	92,301,226 +@@	(23,400)	110,245,457 @@
			4,168,925 ø	(119,802,303) «	
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 ##
Narra Industries Berhad	1.00	38,314,000	-	-	38,314,000
Guoco Group Limited	USD0.50	235,798,529	-	-	235,798,529
GuocoLand Limited	∞	614,133,274 @@	205,111,089 @@♀	-	819,244,363 @@
		8,461,946 *	-	(94,625) *	8,724,438 *▲
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
Nanjing Xinhaoning Property Development Co., Ltd	#	11,800,800	-	-	11,800,800
Nanjing Xinhaoxuan Property Development Co. Ltd	#	11,800,800	-	-	11,800,800
Nanjing Mahui Property Development Co., Ltd	^	271,499,800	-	-	271,499,800
Beijing Cheng Jian Dong Hua Real Estate Development Company Limited	^	50,000,000	-	-	50,000,000
Belmeth Pte. Ltd.	∞	-	40,000,000	-	40,000,000
Guston Pte. Ltd.	∞	-	8,000,000	-	8,000,000
Perfect Eagle Pte. Ltd.	∞	1	23,999,999	-	24,000,000 €
Lam Soon (Hong Kong) Limited	HKD1.00	140,008,659	-	-	140,008,659

DIRECTORS' REPORT

for the financial year ended 30 June 2011
(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 1.7.10**	**Acquired**	**Sold**	**As at 30.6.11**
Interests of YBhg Tan Sri Quek Leng Chan in (continued):					
Kwok Wah Hong Flour Company Limited	HKD100.00	9,800	-	-	9,800
M.C. Packaging Offshore Limited	HKD0.01	812,695	-	-	812,695
Guangzhou Lam Soon Food Products Limited	Ω	6,570,000	-	-	6,570,000
GuocoLand (Malaysia) Berhad	0.50	466,555,616 @@	-	(10,500,000) @@	456,055,616
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	907,809,425	10,692,000	-	918,501,425
Bondway Properties Limited	GBP1.00	1,134,215 ¤	-	(1,134,215) ¤ψ	-
(In Members' Voluntary Liquidation)	GBP1.00	10,332 ¤¤	-	(10,332) ¤¤ψ	-
The Rank Group Plc	GBP13$^{8/9}$p	220,225,312 ►	45,819,079 Δ	-	266,044,391
Park House Hotel Limited	GBP10p	2,883,440 ►	-	-	2,883,440
Interests of Dr Poh Soon Sim in:					
Hong Leong Financial Group Berhad	1.00	808,810	-	-	808,810
	1.00	4,204,800 N1	-	(200,000) N1	4,004,800 N1
Hong Leong Company (Malaysia) Berhad	1.00	207,750	-	-	207,750
Hong Leong Industries Berhad	0.50	26,000	13,000 ≈	(13,000) ®	26,000
		39,100 N1	19,700 ≈N1	(19,600) ®N1	39,200 N1
Hong Leong Bank Berhad	1.00	88,000	-	-	88,000
		15,000 N1	-	-	15,000 N1
GuocoLand (Malaysia) Berhad	0.50	262,843	-	-	262,843
	0.50	4,553,700 N1	-	(1,553,700) N1	3,000,000 N1
GuocoLand Limited	∞	777,000 N1	1,144,000 N1	-	1,921,000 N1
Guoco Group Limited	USD0.50	-	175,000 N1	-	175,000 N1
Malaysian Pacific Industries Berhad	0.50	-	9,750 +	-	9,750
	0.50	-	14,700 N1+	-	14,700 N1

DIRECTORS' REPORT

for the financial year ended 30 June 2011
(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 1.7.10	Acquired	Sold	As at 30.6.11
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]
Hong Leong Capital Berhad (formerly known as HLG Capital Berhad)	1.00	100,000 [N1]	-	-	100,000 [N1]
Interests of Mr Quek Kon Sean in:					
Hong Leong Industries Berhad	0.50	750,000	375,000 [≈]	(375,000) [®]	750,000
Malaysian Pacific Industries Berhad	0.50	-	281,250 [+]	-	281,250
Interest of Ms Yvonne Chia in:					
Hong Leong Financial Group Berhad	1.00	-	10,000 [N1]	-	10,000 [N1]

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
♦ Capital contribution in VND
@@ Inclusive of shares held pursuant to Section 134(12)(c) of the Companies Act, 1965
€ Became a non-wholly owned subsidiary during the financial year
Redeemable Preference Shares
¤ Ordinary-Voting Shares
¤¤ Ordinary-Non Voting Shares
+ Entitlement to Malaysian Pacific Industries Berhad shares pursuant to capital distribution by Hong Leong Industries Berhad ("HLI") to entitled shareholders of HLI via a reduction of the share capital and cancellation of the share premium reserve of HLI
« Capital distribution by HLI to entitled shareholders of HLI
® Cancellation pursuant to a reduction of share capital
ø Acquired from trusts set up for an approved executive share option scheme
♀ Inclusive of shares acquired from rights issue
≈ Shares acquired from rights issue
▲ After adjustment of the conversion price of the convertible bonds
► Shareholding as at 7 June 2011 as the corporation became a related corporation
∆ Acceptances received for shares in respect of mandatory cash offer
¥ Exercise of share options
N1 Shares held pursuant to Section 134(12)(c) of the Companies Act, 1965
ψ Dissolved during the financial year

DIRECTORS' REPORT
for the financial year ended 30 June 2011
(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 2011
(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 statement of income.

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 2011, 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 statements of income and statements of financial position 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 Notes 55 and 56 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 2011 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

DIRECTORS' REPORT
for the financial year ended 30 June 2011
(continued)

STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (continued)

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

(ii) In the opinion of the Directors: (continued)

- 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.

(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 COMMITTEE

The Group's Islamic banking and takaful business activities are subject to the Shariah compliance and confirmation by the Shariah Committee consisting of 5 scholars, at all times, appointed by the Board of Directors of Hong Leong Islamic Bank Berhad and Hong Leong MSIG Takaful Berhad (formerly known as 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 16 August 2011.

CHOONG YEE HOW
Director

YVONNE CHIA
Director

Kuala Lumpur
20 September 2011

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2011

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Assets					
Cash and short term funds	2	32,424,991	17,330,158	114,679	12,041
Deposits and placements with banks and other financial institutions	3	5,213,395	7,726,566	-	-
Securities purchased under resale agreements		159,770	-	-	-
Financial assets held for trading	4	6,974,724	9,653,588	37,814	23,014
Financial investments available-for-sale	5	10,745,477	8,096,680	-	-
Financial investments held-to-maturity	6	8,141,334	6,866,864	-	-
Derivative financial assets	22	798,164	1,041,013	2,342	4,123
Loans, advances and financing	7	82,735,477	38,522,242	-	-
Clients' and brokers' balances	8	236,393	155,623	-	-
Other receivables	9	1,139,432	1,131,802	2,554	2,352
Amount due from subsidiaries	50	-	-	2,357,479	282,038
Statutory deposits with Bank Negara Malaysia	11	2,220,366	398,666	-	-
Tax recoverable		9,752	6,119	8,475	4,700
Investment in subsidiary companies	12	-	-	2,393,350	2,278,996
Investment in associated companies	13	1,964,951	1,172,175	-	-
Investment in jointly controlled entity	14	75,252	76,023	-	-
Deferred taxation	15	577,884	176,138	-	-
Property and equipment	16	960,252	658,919	1,577	1,954
Investment properties	17	1,680	1,680	-	-
Goodwill arising on consolidation	18	1,696,344	574,408	-	-
Intangible assets	19	109,929	54,415	12	124
		156,185,567	93,643,079	4,918,282	2,609,342
Non-current assets held for sale	10	-	577,544	-	-
Total assets		156,185,567	94,220,623	4,918,282	2,609,342

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2011
(continued)

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Liabilities					
Deposits from customers	20	114,748,978	69,480,896	-	-
Deposits and placements of banks and other financial institutions	21	11,445,660	4,477,393	-	-
Bills and acceptances payable		683,996	304,140	-	-
Derivative financial liabilities	22	682,098	1,058,951	8,454	-
Clients' and brokers' balances	23	591,595	262,415	-	-
Payables and other liabilities	24	3,785,776	3,828,987	5,970	5,230
Amount due to subsidiaries	50	-	-	15	22
Provision for claims		63,763	52,727	-	-
Provision for taxation		217,734	118,856	-	-
Borrowings	25	2,214,240	742,258	2,194,165	720,258
Senior bonds	26	910,810	-	-	-
Subordinated obligations	27	2,837,943	650,454	-	-
Non-innovative Tier 1 stapled securities	28	1,405,706	-	-	-
Innovative Tier 1 capital securities	29	503,069	-	-	-
Insurance funds	30	5,834,179	5,175,709	-	-
		145,925,547	86,152,786	2,208,604	725,510
Liabilities directly associated with non-current assets held for sale	10	-	550,707	-	-
Total liabilities		145,925,547	86,703,493	2,208,604	725,510
Equity attributable to owners of the parent					
Share capital	31	1,052,768	1,052,768	1,052,768	1,052,768
Reserves	32	6,489,083	4,244,347	1,712,696	896,814
Treasury shares for ESOS scheme	33	(72,517)	(78,171)	(55,786)	(65,750)
		7,469,334	5,218,944	2,709,678	1,883,832
Non-controlling interests		2,790,686	2,298,186	-	-
Total equity		10,260,020	7,517,130	2,709,678	1,883,832
Total equity and liabilities		156,185,567	94,220,623	4,918,282	2,609,342
Commitments and contingencies	44	142,202,689	102,891,118	921,000	368,030

STATEMENTS OF INCOME

for the financial year ended 30 June 2011

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Interest income	34	3,340,436	2,587,017	17,299	1,275
Interest expense	35	(1,678,360)	(1,192,973)	(30,406)	(14,567)
Net interest income/(expense)		1,662,076	1,394,044	(13,107)	(13,292)
Income from Islamic banking business	36	227,090	184,837	-	-
		1,889,166	1,578,881	(13,107)	(13,292)
Non-interest income	37	1,767,085	879,727	1,182,739	229,591
		3,656,251	2,458,608	1,169,632	216,299
Overhead expenses	38	(1,336,344)	(1,050,137)	(33,142)	(14,773)
Operating profit before allowances		2,319,907	1,408,471	1,136,490	201,526
Allowances for impairment on loans, advances and financing and other losses	39	(136,521)	(107,967)	-	-
Write off of goodwill	18	(12,707)	-	-	-
Writeback of/(allowance for) impairment losses		(1,434)	7,447	309	(1,365)
		2,169,245	1,307,951	1,136,799	200,161
Share of results of associated companies	13	250,854	143,575	-	-
Share of results of jointly controlled entity	14	(771)	(688)	-	-
Profit before taxation and zakat		2,419,328	1,450,838	1,136,799	200,161
Taxation and zakat	41	(349,979)	(244,417)	(53,348)	(50,404)
Net profit for the financial year		2,069,349	1,206,421	1,083,451	149,757
Attributable to:					
Owners of the parent		1,671,914	860,847	1,083,451	149,757
Non-controlling interests		397,435	345,574	-	-
		2,069,349	1,206,421	1,083,451	149,757
Earnings per share attributable to equity holders of the Company (sen)					
- Basic	42	161.2	83.1	104.1	14.4
- Diluted	42	160.7	83.1	103.8	14.4

STATEMENTS OF COMPREHENSIVE INCOME
for the financial year ended 30 June 2011

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Net profit for the financial year		**2,069,349**	1,206,421	**1,083,451**	149,757
Other comprehensive income					
Currency translation differences		**(46,441)**	(31,963)	**-**	-
Share of other comprehensive income of associated companies and jointly controlled entities		**(549)**	(3)	**-**	-
Net fair value changes on financial investments available-for-sale	57	**32,159**	65,131	**-**	-
Income tax relating to components of other comprehensive income	57	**(6,432)**	(13,026)	**-**	-
Other comprehensive (loss)/income for the financial year, net of tax		**(21,263)**	20,139	**-**	-
Total comprehensive income for the financial year, net of tax		**2,048,086**	1,226,560	**1,083,451**	149,757
Attributable to:					
Owners of the parent		**1,656,953**	874,543	**1,083,451**	149,757
Non-controlling interest		**391,133**	352,017	**-**	-
		2,048,086	1,226,560	**1,083,451**	149,757

STATEMENTS OF CHANGES IN EQUITY
for the financial year ended 30 June 2011

		Attributable to owners of the parent												
The Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Treasury shares for ESOS scheme RM'000**	**Statutory reserve RM'000**	**Regulatory 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**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 July 2010														
- as previously reported		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
- changes in accounting policies	55	-	-	-	-	-	52,304	-	-	-	28,860	81,164	4,186	85,350
- prior year adjustment	55	-	-	-	-	-	-	-	-	-	58,393	58,393	29,907	88,300
As restated		1,052,768	117,229	(78,171)	1,190,262	-	70,158	133,258	26,655	(3,174)	2,791,123	5,300,108	2,302,372	7,602,480
Comprehensive income														
Net profit for the financial year		-	-	-	-	-	-	-	-	-	1,671,914	1,671,914	397,435	2,069,349
Currency translation differences		-	-	-	-	-	-	-	-	(33,142)	-	(33,142)	(13,299)	(46,441)
Share of other comprehensive income of associated companies		-	-	-	-	-	-	-	-	(541)	-	(541)	(8)	(549)
Net fair value changes in financial investments available-for-sale, net of tax	32	-	-	-	-	-	18,722	-	-	-	-	18,722	7,005	25,727
Total comprehensive income/(loss)		-	-	-	-	-	18,722	-	-	(33,683)	1,671,914	1,656,953	391,133	2,048,086
Transaction with owners														
Transfer to statutory reserve/regulatory reserve		-	-	-	50,917	726	-	-	-	-	(50,917)	726	-	726
Allocation of other reserves to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	97,181	97,181
Dividends paid	43	-	-	-	-	-	-	-	-	-	(274,891)	(274,891)	-	(274,891)
Options charge arising from ESOS		-	-	-	-	-	-	-	10,623	-	-	10,623	-	10,623
Exercise of ESOS		-	-	5,654	-	-	-	-	(2,313)	-	6,009	9,350	-	9,350
Gain on partial disposal of subsidiary		-	-	-	-	-	-	-	-	-	766,465	766,465	-	766,465
Total transaction with owners		-	-	5,654	50,917	726	-	-	8,310	-	446,666	512,273	97,181	609,454
At 30 June 2011		1,052,768	117,229	(72,517)	1,241,179	726	88,880	133,258	34,965	(36,857)	4,909,703	7,469,334	2,790,686	10,260,020

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2011
(continued)

		Attributable to owners of the parent											
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	Non-controlling interest RM'000	Total equity RM'000
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	2,098,265	4,489,048	2,256,905	6,745,953
- prior year adjustment	55	-	-	-	-	-	-	-	-	44,394	44,394	22,794	67,188
As restated		1,052,768	117,229	(78,171)	1,141,486	(19,429)	133,258	23,229	20,413	2,142,659	4,533,442	2,279,699	6,813,141
Comprehensive income													
Net profit for the financial year		-	-	-	-	-	-	-	-	860,847	860,847	345,574	1,206,421
Currency translation differences		-	-	-	-	-	-	-	(23,585)	-	(23,585)	(8,378)	(31,963)
Share of other comprehensive income of associated companies		-	-	-	-	-	-	-	(2)	-	(2)	(1)	(3)
Net fair value changes in financial investments available-for-sale, net of tax	32	-	-	-	-	37,283	-	-	-	-	37,283	14,822	52,105
Total comprehensive income/(loss)		-	-	-	-	37,283	-	-	(23,587)	860,847	874,543	352,017	1,226,560
Transaction with owners													
Transfer to statutory reserve		-	-	-	48,776	-	-	-	-	(48,776)	-	-	-
Allocation of other reserves to non-controlling interest		-	-	-	-	-	-	-	-	-	-	(333,530)	(333,530)
Dividends paid	43	-	-	-	-	-	-	-	-	(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)
Total transaction with owners		-	-	-	48,776	-	-	3,426	-	(241,243)	(189,041)	(333,530)	(522,571)
At 30 June 2010		1,052,768	117,229	(78,171)	1,190,262	17,854	133,258	26,655	(3,174)	2,762,263	5,218,944	2,298,186	7,517,130

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2011
(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 2010		**1,052,768**	**117,229**	**(65,750)**	**254,991**	**10,827**	**513,767**	**1,883,832**
Net profit for the financial year		**-**	**-**	**-**	**-**	**-**	**1,083,451**	**1,083,451**
Dividends paid	**43**	**-**	**-**	**-**	**-**	**-**	**(274,891)**	**(274,891)**
Options charge arising from ESOS		**-**	**-**	**-**	**-**	**2,730**	**-**	**2,730**
Exercise of ESOS		**-**	**-**	**6,550**	**-**	**-**	**1,976**	**8,526**
Transfer of treasury shares		**-**	**-**	**3,414**	**-**	**-**	**2,616**	**6,030**
At 30 June 2011		**1,052,768**	**117,229**	**(55,786)**	**254,991**	**13,557**	**1,326,919**	**2,709,678**
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	32	-	-	-	236,507	-	-	236,507
Dividends paid	43	-	-	-	-	-	(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

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the financial year ended 30 June 2011

		The Group	
	Note	2011 RM'000	2010 RM'000
Cash flow from operating activities			
Profit before taxation and zakat		2,419,328	1,450,838
Adjustments for:			
Unearned premium reserves		(77,781)	3,206
Life fund - underwriting surplus		989,506	782,939
Depreciation of property and equipment		65,801	55,303
Amortisation of intangible assets		21,930	18,058
Gain on sale of property and equipment		(477)	(36,005)
Gain on sale of intangible assets		(1,360)	-
Gain on disposal of general insurance business		(618,646)	-
Gain from redemption of financial investments held-to-maturity		(2,109)	(1,318)
Gain from disposal of financial investments available-for-sale		(43,150)	(13,242)
Gain from disposal of financial assets held for trading		(50,551)	(29,850)
Net unrealised (gain)/loss on revaluation of financial assets held for trading and derivative financial instruments		(63,970)	10,130
Net realised gain on revaluation of financial assets held for trading and derivative financial instruments		(8,905)	-
Net realised loss on fair value changes arising from fair value hedges		30,352	(513)
Net unrealised gain on fair value changes arising from fair value hedges		(27,805)	(3,472)
Allowance for/(writeback of) impairment losses		1,434	(7,447)
Allowances for losses on loans, advances and financing		136,521	206,250
Interest in suspense		-	16,664
Accretion of discount less amortisation of premium		-	(153,614)
Interest expense on borrowings		30,637	17,855
Interest expense on subordinated obligations		66,708	35,089
Interest expense on senior bonds		10,108	-
Interest expense on non-innovative Tier 1 stapled securities		11,412	-
Interest expense on innovative Tier 1 capital securities		6,392	-
Interest income from financial assets held for trading		(86,619)	(61,242)
Interest income from financial investments available-for-sale		(113,917)	(146,978)
Interest income from financial investments held-to-maturity		(447,036)	(223,945)
Dividend income from financial investments available-for-sale, held-to-maturity and financial assets held for trading		(65,551)	(25,439)
Option charge arising from ESOS		10,623	5,068
Write off of goodwill		12,707	-
Surplus transferred from life insurance business		(241,000)	(175,000)
Share of results of jointly controlled entity		771	688
Share of results of associated companies		(250,854)	(143,575)
		(704,829)	129,610
Operating profit before working capital changes		1,714,499	1,580,448

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the financial year ended 30 June 2011
(continued)

		The Group	
	Note	2011 RM'000	2010 RM'000
(Increase)/decrease in operating assets			
Deposits and placements with banks and other financial institutions		3,247,613	(2,150,906)
Securities purchased under resale agreements		(159,770)	-
Financial assets held for trading		3,402,941	(2,131,020)
Loan, advances and financing		(6,675,450)	(3,246,890)
Clients' and brokers' balances		(80,770)	64,529
Other receivables		162,119	(827,232)
Statutory deposits with Bank Negara Malaysia		(1,132,033)	(30,102)
Increase/(decrease) in operating liabilities			
Deposits from customers		3,277,509	2,218,810
Deposits and placements of banks and other financial institutions		1,956,673	2,063,414
Bills and acceptances payable		(25,401)	52,754
Payables and other liabilities		(1,472,624)	1,689,976
Provision for claims		11,036	38,323
Clients' and brokers' balances		329,180	(16,614)
		2,841,023	(2,274,958)
Cash generated from/(used in) operating activities		4,555,522	(694,510)
Proceeds from exercising of ESOS		9,350	12,235
Income tax paid		(369,420)	(238,738)
Interest received		2,658	960
		(357,412)	(225,543)
Net cash flows generated from/(used in) operating activities		4,198,110	(920,053)
Cash flows from investing activities			
Acquisition of assets and liabilities of EON Capital Berhad ("ECB"), net of cash acquired	56	4,729,494	-
Net (purchases)/proceeds of financial investments available-for-sale		1,224,518	(1,044,642)
Net purchases of financial investments held-to-maturity		(1,149,468)	(137,706)
Interest received on financial investments available-for-sale and held-to-maturity		560,953	370,923
Dividends received on financial investments available-for-sale, held-to-maturity and financial assets held for trading		65,551	18,635
Dividends received from associated company		76,175	16,682
Proceeds from disposal of property and equipment		2,768	57,380
Proceeds from disposal of intangible assets		1,551	28
Purchase of property and equipment		(101,065)	(146,692)
Purchase of intangible assets		(34,596)	(36,649)
Proceeds from disposal of general insurance business and equity interest in Hong Leong Assurance Berhad ("HLA")		940,000	-
Investment in jointly controlled entity		-	(76,711)
Net cash flows generated from/(used in) investing activities		6,315,881	(978,752)

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the financial year ended 30 June 2011
(continued)

		The Group	
	Note	2011 RM'000	2010 RM'000
Cash flows from financing activities			
Interest paid on subordinated obligations		(30,637)	(36,304)
Interest paid on borrowings		(66,708)	(17,855)
Interest paid on senior bonds		(286)	-
Interest paid on non-innovative Tier 1 stapled securities		(371)	-
Repayment of revolving credit		(32,925)	(124,900)
Issuance/(repayment) of medium term notes and commercial papers		458,874	(199,721)
Drawdown on borrowings		1,046,033	469,751
Proceeds from rights issue		-	15,876
Proceeds from senior bonds		910,738	-
Proceeds from subordinate obligations		1,030,610	-
Proceeds from non-innovative Tier 1 stapled securities		1,394,665	-
Dividends paid to			
- owners of the parent		(274,891)	(194,683)
- non-controlling interest		(88,446)	(87,962)
Net cash flows generated from/(used in) financing activities		4,346,656	(175,798)
Net decrease in cash and cash equivalents		14,860,647	(2,074,603)
Effects of exchange rate changes		(51,890)	(101,484)
Cash and cash equivalents at beginning of financial year		17,114,555	19,290,642
Cash and cash equivalents at end of financial year		31,923,312	17,114,555
Cash and cash equivalents comprise:			
Cash and short term funds	2	32,424,991	17,330,158
Less: Fixed deposits placed with a bank during the tenure of term loans taken		(8,400)	(8,400)
Remisiers' and clients' trust monies		(493,279)	(207,203)
		31,923,312	17,114,555

COMPANY STATEMENTS OF CASH FLOWS
for the financial year ended 30 June 2011

		The Company	
	Note	2011 RM'000	2010 RM'000
Cash flows from operating activities			
Profit before taxation		1,136,799	200,161
Adjustments for:			
Gain on disposal of property and equipment		-	(212)
Write off of property and equipment		7	-
Gain on capital redemption		(937,500)	-
Net realised (gain)/loss on sale of financial assets held for trading		78	(11)
Net unrealised foreign exchange gains		(7,992)	-
Net unrealised gain on revaluation of financial assets held for trading		10,205	2,230
Gain on disposal of subsidiary		-	1,188
Depreciation of property and equipment		755	756
Amortisation of intangible assets		115	123
Interest expense		30,406	14,567
Interest income		(17,299)	(1,275)
(Write back of)/allowance for impairment loss in subsidiary		(309)	1,365
Dividend income from financial assets held for trading		(7,208)	(419)
Dividend income from subsidiary companies		(228,491)	(228,378)
Option charge arising from ESOS		2,730	619
		(1,154,503)	(209,447)
Operating loss before working capital changes		(17,704)	(9,286)
Decrease/(increase) in receivables		617,043	(235,089)
Increase in financial assets held for trading		(14,848)	(4,039)
Increase/(decrease) in payables		10,652	(1,139)
		612,847	(240,267)
Cash generated/(used in) operations		595,143	(249,553)
Proceeds from exercising ESOS		7,630	-
Income tax refund		-	13,380
Interest received		2,658	960
		10,288	14,340
Net cash flows generated from/(used in) operating activities		605,431	(235,213)

COMPANY STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2011
(continued)

		The Company	
	Note	2011 RM'000	2010 RM'000
Cash flows from investing activities			
Dividend income from subsidiary companies		171,368	171,284
Dividends received on financial assets held for trading		7,208	419
Proceeds from disposal of property and equipment		-	438
Purchase of property and equipment		(385)	(48)
Purchase of intangible assets		(3)	(17)
Proceeds from capital redemption		551,000	-
Increase in investment in subsidiaries		(172,842)	(242,073)
Proceeds from redemption of redeemable preference shares		58,797	-
Transfer of treasury shares to subsidiary		6,031	-
Bridging loan to subsidiary		(2,300,000)	-
Proceeds from disposal of subsidiary		-	245,280
Net cash flows (used in)/generated from investing activities		(1,678,826)	175,283
Cash flows from financing activities			
Interest paid on borrowings		(26,951)	(14,567)
Repayment of revolving credit		(31,000)	-
Drawdown of term loans		1,050,000	469,751
Drawdown/(repayment) of medium term notes and commercial papers		458,875	(199,721)
Dividends paid to shareholders of the Company		(274,891)	(194,683)
Net cash flows generated from financing activities		1,176,033	60,780
Net increase in cash and cash equivalents		102,638	850
Cash and cash equivalents at beginning of financial year		3,641	2,791
Cash and cash equivalents at end of financial year		106,279	3,641
Cash and cash equivalents comprise:			
Cash and short term funds	2	114,679	12,041
Less: Fixed deposits placed with a bank during the tenure of term loans taken		(8,400)	(8,400)
		106,279	3,641

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011

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, as modified by Bank Negara Malaysia ("BNM") Guidelines and comply with provisions of the Companies Act, 1965 and the Insurance Act, 1996. 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 MSIG Takaful Berhad ("HLMT") (formerly known as Hong Leong Tokio Marine Takaful Berhad) 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 Company has been granted relief by the Companies Commision of Malaysia to prepare its consolidated financial statements on the basis consistent with the basis of preparation of the Group's insurance subsidiary company.

The preparation of financial statements in conformity with Financial Reporting Standards ("FRS") 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 58.

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

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and Company's financial year beginning on or after 1 July 2010 are as follows:

- FRS 3 (revised) "Business Combinations"
- FRS 4 "Insurance Contract"
- FRS 7 "Financial Instruments: Disclosures" and the related Amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 123 "Borrowing Costs"
- FRS 127 (revised) "Consolidated and Separate Financial Statements"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related Amendments
- Amendment to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations"
- Amendments to FRS 132 "Financial Instruments: Presentation" and FRS 101 (revised) "Presentation of Financial Statements - Puttable financial instruments and obligations arising on liquidation"
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions"
- IC Interpretation 13 "Customer Loyalty Programmes"
- IC Interpretation 14 "FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- IC Interpretation 16 "Hedges of a Net Investment in a Foreign Operation"
- IC Interpretation 17 "Distribution of Non-cash Assets to Owners"
- TR i-3 "Presentation of Financial Statements of Islamic Financial Institutions"
- Improvements to FRSs (2009 and 2010)

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Group and the Company is set out in Note 55.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

The Group and the Company will apply these standards and IC Interpretations when effective.

- Amendments to FRS 2 "Share-based Payment: Group Cash-settled Share-based Payment Transactions" (effective from 1 January 2011) clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments also incorporate guidance previously included in IC Interpretation 8 "Scope of FRS 2" and IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions", which shall be withdrawn upon application of this amendment. The Group and the Company will apply this standard from financial years beginning on or after 1 July 2011.

- Amendments to FRS 7 "Financial Instruments: Disclosures" and FRS 1 "First-time Adoption of Financial Reporting Standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Group and the Company will apply these standards from financial years beginning on or after 1 July 2011.

- IC Interpretation 4 "Determining whether an Arrangement contains a Lease" (effective from 1 January 2011) requires the Group to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangements are, or contain, leases. The assessment is based on the substance of the arrangement and requires assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 "Leases" should be applied to the lease element of the arrangement. The Group and the Company will apply this standard from financial years beginning on or after 1 July 2011.

- IC Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss. The Group and the Company will apply this standard from financial years beginning on or after 1 July 2011.

- Amendments to IC Interpretation 14 "FRS 119 - The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction" (effective from 1 July 2011) permits an entity to recognise the prepayments of contributions as an asset, rather than an expense in circumstances when the entity is subject to a minimum funding requirement and makes an early payment of contributions to meet those requirements. The Group and the Company will apply this standard from financial years beginning on or after 1 July 2011.

Improvements to FRSs

- FRS 3

    - Clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by FRS.

    - Clarifies that the amendments to FRS 7, FRS 132 and FRS 139 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of FRS 3 (2010). Those contingent consideration arrangements are to be accounted for in accordance with the guidance in FRS 3 (2005).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

(b) 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 Group and the Company will apply these improvements from financial years beginning on or after 1 July 2011.

- FRS 101 "Presentation of Financial Statements" removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity. The Group and the Company will apply this improvement from financial years beginning on or after 1 July 2011.

The adoption of the new standards, amendments to published standards and Interpretations are not expected to have a material impact on the financial results of the Group and the Company.

B CONSOLIDATION

(a) 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 predecessor basis of accounting as follows:

- subsidiaries that were consolidated prior to 1 April 2002 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 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122_{2004} "Business Combinations";
- internal group reorganisations, as defined in FRS 122_{2004}, consolidated on/after 1 April 2002 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 (revised) 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

B CONSOLIDATION (continued)

(a) Subsidiaries (continued)

The consideration transferred for acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

In a business combination achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the gain is recognised in profit or loss.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. On an acquisition-by-acquisition basis, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. At the end of reporting period, non-controlling interest consists of amount calculated on the date of combinations and its share of changes in the subsidiary's equity since the date of combination.

All earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interests for prior years is not restated.

Change in accounting policy

The Group changed its accounting policy on business combinations and accounting for non-controlling interest when it adopted the revised FRS 3 "Business Combinations" and FRS 127 "Consolidated and Separate Financial Statements".

Previously, contingent consideration in a business combination was recognised when it is probable that payment will be made. Acquisition-related costs were included as part of the cost of business combination. Any non-controlling interest in the acquiree was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group was accounted for as a revaluation.

The Group has applied the new policies prospectively to transactions occurring on or after 1 July 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

Previously, the Group had stopped attributing losses to the non-controlling interest because the losses exceeded the carrying amount of the non controlling interest. The Group has applied this policy prospectively. On the date of adoption of the new policy, the non-controlling interest reflects its previous carrying amount (that is, zero).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary 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 profit or loss attributable to the parent.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

B CONSOLIDATION (continued)

(b) Transaction with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is deducted from equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recognised in equity.

Change in accounting policy

Previously, the Group applied a policy of treating transactions with non-controlling interest as transactions with parties external to the Group. Accordingly, disposals resulted in gains or losses and purchases resulted in the recognition of goodwill, being the difference between consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired. The Group has applied this policy prospectively to transactions occurring on or after 1 July 2010.

(c) Investment in jointly controlled entity

Jointly controlled entities are 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.

The Group's interest in jointly controlled entities is accounted for in the financial statements by the equity method of accounting. Equity accounting involves recognising the Group's share of the post-acquisition results of jointly controlled entities in profit or loss and its share of post-acquisition changes of the investee's reserves in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of the investment and include goodwill on acquisition (net of accumulated impairment loss).

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Where necessary, adjustments have been made to the financial statements of jointly controlled entities to ensure consistency of accounting policies with those of the Group.

(d) Associated companies

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

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

The Group's share of its associated companies' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses of an associate equals or exceeds its interest in the associated companies, the Group discontinues recognising its share of further losses. The interest in the associated companies is the carrying amount of the investment in the associated companies under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associated companies. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associated companies. If the associated companies subsequently report profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

B CONSOLIDATION (continued)

(d) Associated companies (continued)

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; 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.

(e) Changes in ownership interest

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value is its fair value on initial recognition as a financial asset in accordance with FRS 139. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

Change in accounting policy

The Group has changed its accounting policy prospectively for transactions occurring on or after 1 July 2010 with non-controlling interests and transactions involving the loss of control, joint control or significant influence when it early adopted the revised FRS 127 "Consolidated and Separate Financial Statements". The revisions to FRS 127 contained consequential amendments to FRS 128 "Investments in Associates" and FRS 131 "Interests in Joint Ventures".

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost on initial measurement as a financial asset in accordance with FRS 139.

C GOODWILL

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

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:

Leasehold land	Over the remaining period of the lease or 100 years whichever is shorter
Buildings on leasehold land	Over the remaining period of the lease or 50 years whichever is shorter
Buildings on freehold land	50 years
Equipment, furniture and fittings	3-10 years
Renovations	5-10 years
Motor vehicles	4-5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

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 profit or loss in the year in which they arise.

F INTANGIBLE ASSETS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

G LEASES

Finance Lease

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Group or the Company are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property, plant and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to profit or loss.

Operating Lease

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Changes in accounting policy

Following the adoption of the improvement to FRS 117 "Leases", certain leasehold land in which the Group and the Company have substantially all the risks and rewards incidental to ownership have been reclassified retrospectively from operating lease to finance lease.

Previously, these leasehold land were classified as an operating lease unless title is expected to pass to the lessee at the end of the lease term. Refer to Note 55 for the impact of this change in accounting policy.

H FINANCIAL ASSETS

(a) Classification

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

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets held for trading and other financial assets designated by the Group and the Company as fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

H FINANCIAL ASSETS (continued)

(a) Classification (continued)

(iii) Financial investments held-to-maturity

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

(iv) Financial investments available-for-sale

Financial investments available-for-sale 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 or that are not classified as financial assets at fair value through profit or loss, loans and receivables and financial investments held-to-maturity.

(b) Recognition and initial measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the profit and loss.

(c) Subsequent measurement

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit or loss in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale 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 profit or loss. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the profit and loss in the period it arises.

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from the de-recognition or impairment of the securities are recognised in the profit or loss.

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

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including the transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the profit or loss. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss.

(d) Reclassification of financial assets

The Group and the Company may choose to reclassify a non-derivative financial assets held for trading out of the held for trading category if the financial asset is no longer held for the purposes of selling in the near term. In addition, the Group and the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group and the Company have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

H FINANCIAL ASSETS (continued)

(d) Reclassification of financial assets (continued)

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 are determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective interest rates.

Changes in accounting policy

The Group and the Company have changed its accounting policy for financial assets upon adoption of FRS 139 on 1 July 2010. All unquoted equity securities which were previously carried at cost are now measured at fair value, with changes in fair value recognised in fair value reserves.

Upon adoption of FRS 139, interest receivable previously classified under other assets is now reclassified into the respective category of financial assets.

The Group and the Company have applied the new policy according to the transitional provisions by remeasuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated. Refer to Note 55 for the impact of this change in accounting policy.

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 profit or loss.

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 2011
(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.

(a) 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 profit or loss over the period to maturity.

(b) 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 profit or loss in the periods in which the hedged item will affect profit or loss (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 profit or loss. 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 profit or loss.

(c) 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 profit or loss.

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

(d) 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 profit or loss.

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 2011
(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 profit or loss over the period of the borrowings using the effective interest method.

O UNEARNED PREMIUM RESERVES

(a) 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 insurance subsidiary 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.

(b) 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.

(c) Acquisition costs

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

P BENEFITS, CLAIMS AND EXPENSES

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

P BENEFITS, CLAIMS AND EXPENSES (continued)

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

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

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

- 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.

Q INSURANCE CONTRACT LIABILITIES

These liabilities comprise of claims liabilities, acturial liabilities, unallocated surpluses, financial investments available-for-sale fair value reserves and net asset value attributable to unitholders.

(a) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the fund level.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the accumulated amount, as declared to the policy owners, are set as the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

The liability is derecognised when the contract expires, is discharged or is cancelled.

(b) Unallocated surplus

Surplus in discretionary participation features ("DPF") are distributable to policyholders and shareholders in accordance with the relevant terms under Insurance Act, 1966. The insurance subsidiary, however, has discretion over the amount and timing of these surpluses to policy holders and shareholders. Surpluses on non-DPF are attributable wholly to the shareholders and the amount and timing of the distribution to the shareholders and is subject to the recommendation of the company's appointed actuary.

As required by BNM Guidelines, unallocated surplus of both DPF and non-DPF where the amounts are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within insurance contract liabilities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

R LIFE INSURANCE CONTRACT

The valuation of the insurance liability arising from policy benefits made under life insurance contracts is the insurance subsidiary's most critical accounting estimate. The assumptions in relation to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the insurance subsidiary. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are changed as warranted. Any movement in the key assumptions will have an effect in determining the insurance contract liabilities.

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 Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad) ("HLMT").

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 HLMT. 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, associated company 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 financial investments available-for-sale, 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 2011
(continued)

V RECOGNITION OF INTEREST INCOME AND INTEREST EXPENSE

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Income from Islamic banking business is recognised on an accrual basis in accordance with the principles of Shariah.

Change in accounting policy

The Group and the Company have changed its accounting policy for interest income recognition upon adoption of FRS 139 on 1 July 2010.

Prior to the adoption of FRS 139, interest income and interest expense on financial instruments are recognised based on contractual interest rate.

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 statements of financial position. Subsequently, the interest earned on non-performing loans is recognised as income on a 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/profit income on loans, advances and financing was 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.

The Group and the Company have applied the new policy according to the transitional provision by recognising and measuring the financial instruments as at 1 July 2010 and recording any adjustments to opening retained profits. Comparatives have not been restated. Refer to Note 55 for the impact of this change in accounting policy.

W RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. 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.

Commitment fees for loans, advances and financing that are likely to be drawn down and deferred (together with direct costs) and income which forms an integral part of the effective interest rate of a financial instrument is regarded as an adjustment to the effective interest rate of the financial instrument.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

W RECOGNITION OF FEES AND OTHER INCOME (continued)

Dividends from financial assets held for trading, financial investments available-for-sale, financial investments held-to-maturity and subsidiary companies are recognised when the rights to receive payment is established.

Net profit from financial assets held for trading and financial investments available-for-sale 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.

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 HLMT at an agreed percentage of the gross contribution, in accordance with the principles of Wakalah as approved by HLMT's Shariah Advisory Committee and agreed between the participants and HLMT.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

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 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria the Group and the Company use to determine that there is objective evidence of impairment loss include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group and the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or financial investments held-to-maturity have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

In accordance with the Amendments to FRS 139, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 26 January 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. The collective assessment impairment allowance of the Company's banking subsidiaries as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are 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.

If in a subsequent period, the amount of impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

(b) Assets classified as available-for-sale

The Group and the Company assess at each date of the statement of financial position whether there is objective evidence that the financial asset is impaired. For debt securities, the Group and the Company use criteria and measurement of impairment loss applicable for "assets carried at amortised cost" above. If in a subsequent period, the fair value of a debt instrument classified as financial investments available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

Y IMPAIRMENT OF FINANCIAL ASSETS (continued)

(b) Assets classified as available-for-sale (continued)

In the case of equity instruments classified as financial investments available-for-sale, in addition to the criteria for assets carried at amortised cost above, 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 financial investments available-for-sale has been incurred, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the profit or loss.

Change in accounting policy

The Group and the Company have changed its accounting policy for impairment of loans, advances and financing upon adoption of FRS 139.

Prior to the adoption of FRS 139, the Company's banking subsidiaries' allowance on impairment losses is in conformity with the minimum requirements of BNM/GP3. The basis of classification of non-performing loans/financing, and the corresponding specific allowance follows the period of default for non-performing loans/financing of 3 months.

The Group and the Company have applied the new accounting policy to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or if appropriate, another category of equity, of the current financial year. Refer to Note 55 for the impact of this change in the accounting policy.

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 profit or loss 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 profit or loss, 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.

SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

Z EMPLOYEE BENEFITS (continued)

Share-based compensation (continued)

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 profit or loss when incurred in accordance with accounting standards.

Details of treasury shares are as discussed in Note 33 of the financial statements.

AA CURRENCY TRANSLATIONS

(a) 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.

(b) 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 profit or loss, 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 financial investments 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.

(c) 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 profit or loss 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 profit or loss 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

AB CASH AND CASH EQUIVALENTS

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

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 profit or loss 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 profit or loss 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 FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

AF FINANCIAL LIABILITIES (continued)

(b) Financial liabilities at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost.

Change in accounting policy

Upon adoption of FRS 139, interest payables previously classified under other liabilities are now reclassified into the respective category of financial liabilities.

The Group and the Company have applied the new policy according to the transitional provisions by remeasuring all financial liabilities, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated. Refer to Note 55 for the impact of this change in accounting policy.

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.

AH DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Company tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Group under standard repurchase agreements transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

AI FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with FRS 137 "Provision, Contingent Liabilities and Contingent Assets", and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the profit or loss.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

AJ SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(b) Share issue costs

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(c) Dividends

Dividends on ordinary shares are recognised as a liability when the shareholders' right to receive the dividend is established.

AK CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Group. As this may result in the recognition of income that may never be realised, contingent assets are not recognised in the Group's financial statements.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements but are disclose unless the probability of settlement is remote.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011

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. There were no significant changes in the nature of the activities of the Company and its subsidiaries during the financial year.

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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	**1,965,321**	1,038,766	**629**	51
Money at call and deposit placements maturing within one month	**30,459,670**	16,291,392	**114,050**	11,990
	32,424,991	17,330,158	**114,679**	12,041

Included in cash and short term funds of the Group are accounts held in trust representatives amounting to RM501,679,000 (2010: RM215,603,000).

As at 30 June 2011, the Company has placed a fixed deposit of RM8.4 million (2010: 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	
	2011 RM'000	2010 RM'000
Bank Negara Malaysia ("BNM")	**-**	1,800,000
Licensed banks	**3,551,572**	4,732,326
Licensed investment banks	**60,204**	370,000
Other financial institutions	**1,601,619**	824,240
	5,213,395	7,726,566

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

4 FINANCIAL ASSETS HELD FOR TRADING

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Money market instruments				
Bank Negara Malaysia bills	767,821	2,606,431	-	-
Malaysian Government treasury bills	49,185	251,599	-	-
Malaysian Government securities	118,769	1,109,944	-	-
Malaysian Government investment certificates	388,068	1,116,703	-	-
Other Government securities	-	5,659	-	-
Bankers' acceptances and Islamic accepted bills	3,944,863	2,771,744	-	-
Negotiable instruments of deposit	479,071	784,708	-	-
Cagamas bonds	-	254,998	-	-
Private debt securities	232,168	190,544	-	-
	5,979,945	9,092,330	-	-
Quoted securities				
Shares quoted in Malaysia	401,376	251,167	-	-
Shares quoted outside Malaysia	22,557	22,015	-	-
Unit trust investments	62,288	38,784	37,814	23,014
Foreign currency bonds	383,748	118,292	-	-
Loan stocks in Malaysia	525	-	-	-
	6,850,439	9,522,588	37,814	23,014
Unquoted securities				
Private debt securities	124,285	131,000	-	-
	6,974,724	9,653,588	37,814	23,014

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	The Group	
	2011 RM'000	2010 RM'000
Money market instruments		
Government treasury bills	364,156	533,551
Bank Negara Malaysia Bills	248,165	-
Malaysian Government securities	1,047,502	1,571,027
Malaysian Government investment certificates	1,911,745	2,123,648
Islamic negotiable instrument debt securities	28,833	-
Other Government securities	49,857	51,910
Bankers acceptance	44,853	-
Cagamas bonds	141,231	129,476
Negotiable instruments of deposit	522,051	-
	4,358,393	4,409,612

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (continued)

	The Group	
	2011 RM'000	2010 RM'000
Quoted securities		
Shares quoted in Malaysia	683,663	491,063
Shares quoted outside Malaysia	461,289	52,439
Warrants quoted in Malaysia	-	35
Loan stocks quoted in Malaysia	1,112	1,797
Unit trust investments	127,900	86,920
Foreign currency bonds	838,280	513,672
Private debt securities	19,404	-
	6,490,041	5,555,538
Unquoted securities		
Shares in Malaysia	180,529	7,332
Shares outside Malaysia	3,298	5,015
Private and Islamic debt securities	4,097,586	2,528,795
	10,771,454	8,096,680
Accumulated impairment losses	(25,977)	-
	10,745,477	8,096,680

The Group has designated fair value hedges on its Malaysian Government securities and Malaysian Government investment certificates portfolio using interest rate swaps in the previous year. 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.

The table below shows the movements in allowance for impairment losses during the financial year for the Group:

	The Group
	2011 RM'000
At beginning of financial year	-
Impairment during the financial year	20,735
Acquisition of assets and liabilites of ECB	5,242
At the end of financial year	25,977

The Group and the Company have applied FRS7 prospectively in accordance with the transitional provisions and hence, the comparative is not shown.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	The Group	
	2011 RM'000	2010 RM'000
Money market instruments		
Malaysian Government securities	3,577,908	4,144,712
Malaysian Government investment certificates	1,128,464	1,312,548
Cagamas bonds	170,942	279,872
Negotiable instruments of deposit	2,677,278	690,588
Other government securities	14,043	3,374
	7,568,635	6,431,094
Unquoted securities		
Shares	-	37,791
Loan stocks	2,953	5,442
Private and Islamic debt securities	740,366	407,423
	8,311,954	6,881,750
Accumulated impairment losses	(170,620)	(14,886)
	8,141,334	6,866,864

The table below shows the movements in allowance for impairment losses during the financial year for the Group:

	The Group
	2011 RM'000
At beginning of financial year	14,886
Effect of adopting FRS 139	(10,213)
As restated	4,673
Acquisition of assets and liabilites of ECB	168,000
Amount written back in respect of recoveries	(2,053)
At the end of financial year	170,620

The Group and the Company have applied FRS7 prospectively in accordance with the transitional provisions and hence, the comparative is not shown.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

7 LOANS, ADVANCES AND FINANCING

	The Group	
	2011 RM'000	2010 RM'000
Overdrafts	4,185,914	2,036,810
Term loans/financing:		
- Housing loans/financing	31,796,741	22,534,948
- Syndicated term loans/financing	4,669,705	2,270,838
- Hire purchase receivables	17,315,908	5,650,823
- Lease receivables	4,486	11,866
- Other term loans/financing	10,478,950	2,263,522
Credit/charge card receivables	4,262,859	2,210,438
Bills receivable	354,250	268,725
Trust receipts	302,959	98,419
Policy and premium loans	676,745	655,246
Claims on customer under acceptance credits	6,621,138	3,619,054
Block discounting	8,391	8,244
Revolving credit	3,771,610	1,393,605
Staff loans/financing	305,901	99,531
Other loans/financing	210,477	87,416
	84,966,034	43,209,485
Less: Unearned interest and income	-	(3,876,159)
Gross loans, advances and financing	84,966,034	39,333,326
Unamortised fair value changes arising from terminated fair value hedges	17,177	46,725
Less: Allowance for impaired loans, advances and financing		
- collective assessment	(1,576,741)	-
- individual assessment	(670,993)	-
- specific	-	(278,191)
- general	-	(579,618)
Total net loans, advances and financing	82,735,477	38,522,242

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

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

	The Group	
	2011 RM'000	2010 RM'000
Maturing within:		
- one year	23,118,050	11,200,970
- one year to three years	5,768,612	2,737,654
- three years to five years	8,754,965	3,050,511
- over five years	47,324,407	22,344,191
Gross loans, advances and financing	84,966,034	39,333,326

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

	The Group	
	2011 RM'000	2010 RM'000
Domestic non-bank financial institutions other than stockbroking companies	718,374	178,501
Domestic business enterprises:		
- small medium enterprises	12,199,078	3,349,519
- others	15,871,647	8,347,349
Government and statutory bodies	28,900	278
Individuals	53,368,646	26,220,188
Other domestic entities	30,675	14,395
Foreign entities	2,748,714	1,223,096
Gross loans, advances and financing	84,966,034	39,333,326

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

	The Group	
	2011 RM'000	2010 RM'000
Fixed rate		
- Housing loans/financing	3,545,531	530,012
- Hire purchase receivables	17,263,403	4,924,898
- Credit card	4,262,859	2,210,438
- Other fixed rate loan/financing	4,238,966	1,771,408
Variable rate		
- Base lending rate plus	43,520,900	25,141,613
- Cost plus	11,634,807	4,682,310
- Other variable rates	499,568	72,647
Gross loans, advances and financing	84,966,034	39,333,326

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

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

	The Group	
	2011 RM'000	2010 RM'000
Purchase of securities	1,240,345	476,082
Purchase of transport vehicles	17,373,379	4,834,160
Residential property (Housing)	27,698,836	14,930,332
Non-residential property	9,050,882	4,436,355
Personal use	3,572,467	2,994,401
Credit card	4,262,859	2,210,438
Purchase of consumer durables	199	62
Construction	835,551	298,512
Working capital	17,856,415	8,449,753
Other purpose	3,075,101	703,231
Gross loans, advances and financing	84,966,034	39,333,326

(e) Loans, advances and financing analysed by their geographical distribution are as follows:

	The Group	
	2011 RM'000	2010 RM'000
In Malaysia	83,143,718	38,411,409
Outside Malaysia		
- Singapore	1,807,973	921,917
- Vietnam	14,343	-
	84,966,034	39,333,326

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

(f) Impaired loans, advances and financing analysed by their economic purposes are as follows:

	The Group	
	2011 RM'000	2010 RM'000
Purchase of securities	9,948	12,952
Purchase of transport vehicles	185,001	40,252
Residential property (Housing)	458,242	201,359
Non-residential property	79,403	55,633
Fixed assets	21,067	-
Personal use	93,742	53,792
Credit card	58,100	27,859
Consumer durable	17	-
Construction	31,075	15,907
Working capital	924,549	321,669
Others	31,160	-
Impaired loans, advances and financing	1,892,304	729,423

(g) Movements in the impaired loans, advances and financing are as follows:

	The Group	
	2011 RM'000	2010 RM'000
At beginning of financial year		
- as previously reported	729,423	802,444
- effects of adopting FRS 139	213,479	-
As restated	942,902	802,444
Acquisition of assets and liabilities of ECB	1,294,351	-
Impaired during the financial year	883,759	2,910,248
Performing during the financial year	(493,248)	(2,482,001)
Amount written back in respect of recoveries	(461,787)	(287,549)
Amount written off	(278,682)	(211,708)
Exchange differences	5,009	(2,011)
At the end of financial year	1,892,304	729,423
Gross impaired/non performing loan to gross loans, advances and financing	2.2%	1.9%

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

(h) Impaired loans, advances and financing analysed by their geographical distribution are as follows:

	The Group	
	2011 RM'000	2010 RM'000
In Malaysia	1,847,279	688,192
Outside Malaysia		
- Singapore	45,025	41,231
	1,892,304	729,423

(i) Movements in the allowance for impaired loans, advances and financing are as follows:

	The Group	
	2011 RM'000	2010 RM'000
Collective Assessment Allowance		
At beginning of financial year		
- as previously reported	-	-
- effect of adopting FRS 139	771,288	-
As restated	771,288	-
Acquisition of assets and liabilities of ECB	742,983	-
Net allowance made during the financial year	390,985	-
Amount written back in respect of recoveries	(101,290)	-
Amount written off	(217,424)	-
Unwinding income	(11,018)	-
Exchange differences	1,217	-
At the end of financial year	1,576,741	-
Individual Assessment Allowance		
At beginning of financial year		
- as previously reported	-	-
- effect of adopting FRS 139	234,265	-
As restated	234,265	-
Acquisition of assets and liabilities of ECB	505,525	-
Net allowance made during the financial year	72,384	-
Amount written back in respect of recoveries	(83,718)	-
Amount written off	(45,286)	-
Unwinding income	(14,974)	-
Exchange differences	2,797	-
At the end of financial year	670,993	-

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

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

	The Group	
	2011 RM'000	2010 RM'000
Specific allowance		
At beginning of financial year		
- as previously reported	278,191	330,119
- effect of adopting FRS 139	(278,191)	-
As restated	-	330,119
Allowances made during the financial year	-	289,510
Amount written back in respect of recoveries	-	(128,463)
Amount written off	-	(211,708)
Exchange differences	-	(1,267)
At the end of financial year	-	278,191
General allowance		
At beginning of financial year		
- as previously reported	579,618	546,080
- effect of adopting FRS 139	(579,618)	-
As restated	-	546,080
Net allowances made during the financial year	-	34,135
Exchange differences	-	(597)
At the end of financial year	-	579,618

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	
	2011 RM'000	2010 RM'000
Performing accounts	236,185	155,489
Impaired accounts	12,589	39,082
	248,774	194,571
Less: Allowances for bad and doubtful debts		
- individual assessment allowance	(12,381)	-
- specific allowance	-	(37,043)
- general allowance	-	(1,905)
	236,393	155,623

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

8 CLIENTS' AND BROKERS' BALANCES (continued)

Movements in the allowances for losses on clients' and brokers' balances are as follows:

	The Group	
	2011 RM'000	2010 RM'000
Individual assessment allowance		
At beginning of financial year		
- as previously stated	-	-
- effect of adopting FRS 139	37,043	-
As restated	37,043	-
Allowances made during the financial year	1,562	-
Allowances written back during the financial year	(1,442)	-
Allowances written off	(24,782)	-
At the end of financial year	12,381	-
Specific allowance		
At beginning of financial year		
- as previously stated	37,043	73,432
- effect of adopting FRS 139	(37,043)	-
As restated	-	73,432
Allowances made during the financial year	-	831
Allowances written back during the financial year	-	(417)
Allowances written off	-	(36,803)
At the end of financial year	-	37,043
General allowance		
At beginning of financial year	1,905	50
Allowances made during the financial year	-	1,896
Allowances written back during the financial year	(1,905)	(41)
At the end of financial year	-	1,905

9 OTHER RECEIVABLES

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Foreclosed properties	1,458	1,277	-	-
Interest receivable	-	215,058	-	-
Amount due from other related companies	62	290	3	10
Other debtors, deposits and prepayments	1,137,912	915,177	2,551	2,342
	1,139,432	1,131,802	2,554	2,352

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

10 NON-CURRENT ASSETS/DISPOSAL GROUPS HELD FOR SALE

The non-current 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 was completed on 30 September 2010.

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:

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

	The Group
	2010 RM'000
Property, plant and equipment (Note 16)	13,476
Intangible assets	1,560
Financial investments available-for-sale	108,136
Reinsurance assets	230,605
Other receivables	46,375
Cash and bank balances	177,392
Total	577,544

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

	The Group
	2010 RM'000
Claims liabilities	381,527
Payables and other liabilities	43,953
Premium liabilities	125,227
Total	550,707

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

	The Group	
	2011 RM'000	2010 RM'000
Net inflow from operating activities	-	1,241
Net outflow from operating activities	(30,326)	(3,331)
Total net cash outflows	(30,326)	(2,090)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

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

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

	The Group	
	2011 RM'000	2010 RM'000
Income	55,101	85,335
Expenses	(39,184)	(52,045)
Operating profit	15,917	33,290
Allowances for losses on loans, advances and financing and other losses	(14,225)	(1,895)
Profit before taxation	1,692	31,395
Taxation	(706)	(6,415)
Net profit for the financial year from discontinued operations	986	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 26(2)(c) of the Central Bank of Malaysia Act 2009, the amount of which is determined at set percentages of total eligible liabilities.

12 INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2011 RM'000	2010 RM'000
Subsidiary companies		
Unquoted shares at cost	513,282	403,152
Shares quoted in Malaysia at cost	1,880,068	1,875,844
	2,393,350	2,278,996
At beginning of financial year	2,278,996	2,048,249
Add: Subscription of rights shares of a subsidiary	-	100,605
Add: Subscription of shares in a subsidiary	284,400	400,000
Add: Impairment write back	309	-
Less: Allowance for impairment	-	(1,365)
Less: Redemption of shares	(170,355)	(268,493)
At the end of financial year	2,393,350	2,278,996

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

12 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies of the Company as at 30 June 2011 are as follows:

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2011 %	2010 %	
(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	70.00	100.00	Life insurance business
- Allstate Health Benefits Sdn Bhd*	Malaysia	70.00	100.00	In member's voluntary liquidation
- Unincorporated trust for ESOS$^{\Omega}$*	Malaysia	-	-	Special purpose vehicle for ESOS
(ii) Hong Leong Insurance (Asia) Limited*	Hong Kong	100.00	100.00	General insurance business
(iii) Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad)	Malaysia	65.00	65.00	Takaful business
(iv) HLAH Assets Sdn Bhd	Malaysia	100.00	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
(d) Wing Trade Investments Limited*	British Virgin Islands	100.00	100.00	Investment holding
(e) Unincorporated trust for ESOS$^{\Omega}$*	Malaysia	-	-	Special purpose vehicle for ESOS
(f) Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) and its subsidiary companies:	Malaysia	81.85	81.85	Investment holding
(i) HLG Asset Management Sdn Bhd	Malaysia	81.85	81.85	In member's voluntary liquidation
(ii) HLG Securities Sdn Bhd	Malaysia	81.85	81.85	Investment holding
(iii) HLG Capital Markets Sdn Bhd and its subsidiary company:	Malaysia	81.85	81.85	Investment holding
- HLG Principal Investments (L) Limited	Labuan	81.85	81.85	Dormant
(iv) Hong Leong Investment Bank Berhad and its subsidiary companies:	Malaysia	81.85	81.85	Securities and stock broking, investment banking and future broking
- HLG Nominee (Tempatan) Sdn Bhd	Malaysia	81.85	81.85	Nominee and custodian services for Malaysian clients
- HLG Nominee (Asing) Sdn Bhd	Malaysia	81.85	81.85	Nominee and custodian services for foreign clients
- RC Holdings Sdn Bhd	Malaysia	81.85	81.85	Dormant
- RC Research Sdn Bhd	Malaysia	81.85	81.85	Dormant
- RC Nominees (Asing) Sdn Bhd	Malaysia	81.85	81.85	Dormant
- RC Nominees (Tempatan) Sdn Bhd	Malaysia	81.85	81.85	Dormant
(v) HLG Futures Sdn Bhd	Malaysia	81.85	81.85	Ceased operation

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

12 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies of the Company as at 30 June 2011 are as follows: (continued)

Name of company	Place of incorporation	Effective percentage of ownership 2011 %	2010 %	Principal activities
(vi) Hong Leong Asset Management Bhd and its subsidiary company:	Malaysia	**81.85**	81.85	Sales of unit trusts, unit trust management and fund management
- HL Asset Management Pte Ltd	Singapore	**81.85**	-	Dormant
(vii) Unincorporated trust for ESOS Ω *	Malaysia	-	-	Special purpose vehicle for ESOS
(g) Hong Leong Bank Berhad and its subsidiary companies:	Malaysia	**66.04**	66.31	Licensed bank
(i) Hong Leong Islamic Bank Berhad	Malaysia	**66.04**	66.31	Islamic banking business
(ii) Hong Leong Bank Vietnam Limited +	Vietnam	**66.04**	66.31	Commercial banking business
(iii) HLF Credit (Perak) Bhd and its subsidiary companies:	Malaysia	**66.04**	66.31	Investment holding
- Gensource Sdn Bhd and its subsidiary company:	Malaysia	**66.04**	66.31	Investment holding
• Pelita Terang Sdn Bhd	Malaysia	**66.04**	66.31	Dormant
- WTB Corporation Sdn Bhd and its subsidiary companies:	Malaysia	**66.04**	66.31	Investment holding
• Wah Tat Nominees (Tempatan) Sdn Bhd	Malaysia	**66.04**	66.31	Agent and nominee for Malaysian clients
• Wah Tat Nominees (Asing) Sdn Bhd	Malaysia	**66.04**	66.31	Agent and nominee for foreign clients
- Chew Geok Lin Finance Sdn Bhd	Malaysia	**66.04**	66.31	Investment holding
- Hong Leong Leasing Sdn Bhd *	Malaysia	**66.04**	66.31	Investment holding
- HL Leasing Sdn Bhd	Malaysia	**66.04**	66.31	Investment holding
- HLB Realty Sdn Bhd	Malaysia	**66.04**	66.31	Real property investment and investment holding
(iv) HLB Nominees (Tempatan) Sdn Bhd	Malaysia	**66.04**	66.31	Agent and nominee for Malaysian clients
(v) HL Bank Nominees (Singapore) Pte Ltd +	Singapore	**66.04**	66.31	Agent and nominee for clients
(vi) HLB Nominees (Asing) Sdn Bhd	Malaysia	**66.04**	66.31	Agent and nominee for foreign clients
(vii) HLB Trade Services (Hong Kong) Limited +	Hong Kong	**66.04**	66.31	Ceased operations
(viii) HLB Principal Investments (L) Limited	Malaysia	**66.04**	66.31	Holding of or dealings in offshore securities

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

12 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies of the Company as at 30 June 2011 are as follows: (continued)

Name of company	Place of incorporation	Effective percentage of ownership 2011 %	2010 %	Principal activities
(ix) Prominic Berhad	Malaysia	66.04	-	To issue Subordinated Notes under a Stapled Securities structure and to on-lend the proceeds from the issuance to Hong Leong Bank Berhad, the issuer of the Capital Securities
(x) EON Bank Berhad and its subsidiary companies:	Malaysia	66.04	-	Commercial banking business
- MIMB Investment Bank Berhad and its subsidiary companies:	Malaysia	66.04	-	Investment banking
• ECS Jaya (1969) Sdn Bhd	Malaysia	66.04	-	Dormant
• MIMB Nominees (Tempatan) Sendirian Berhad	Malaysia	66.04	-	Dormant
• MIMB Nominees (Asing) Sendirian Berhad	Malaysia	66.04	-	Dormant
• M.I.T. Nominees (Tempatan) Sdn Bhd	Malaysia	66.04	-	Nominee services
• F.I.T. Nominees (Asing) Sdn Bhd	Malaysia	66.04	-	Nominee services
• SSSB Jaya (1987) Sdn Bhd and its subsidiary companies:	Malaysia	66.04	-	In creditors' voluntary liquidation
▪ SSSB Nominees (Tempatan) Sdn Bhd	Malaysia	66.04	-	In member's voluntary liquidation
▪ SSSB Nominees (Asing) Sdn Bhd	Malaysia	66.04	-	In member's voluntary liquidation
- EONCAP Islamic Bank Berhad	Malaysia	66.04	-	Islamic banking business
- EFB Berhad	Malaysia	66.04	-	Dormant
- EB Nominees (Tempatan) Sendirian Berhad	Malaysia	66.04	-	Nominee services
- EB Nominees (Asing) Sendirian Berhad	Malaysia	66.04	-	Nominee services
- EB Realty Sendirian Berhad	Malaysia	66.04	-	Property investment
- OBB Realty Sdn Bhd	Malaysia	66.04	-	Property investment
- Oriental Nominee (Tempatan) Sdn Bhd	Malaysia	66.04	-	Dormant
- OFB Berhad	Malaysia	66.04	-	Dormant
- CFB Asa Berhad	Malaysia	66.04	-	Dormant
- CFB Nominees (Tempatan) Sdn Bhd	Malaysia	66.04	-	Dormant
- PFB Asa Berhad	Malaysia	66.04	-	Dormant
- Perkasa Nominees (Tempatan) Sdn Bhd	Malaysia	66.04	-	Dormant

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

12 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies of the Company as at 30 June 2011 are as follows: (continued)

Name of company	Place of incorporation	Effective percentage of ownership 2011 %	2010 %	Principal activities
(xi) Unincorporated trust for ESOS[Ω*]	Malaysia	-	-	Special purpose vehicle for ESOS
(xii) Famehub Quest Sdn Bhd[Ω*]	Malaysia	-	-	Special purpose vehicle
(xiii) Famehub Capital Sdn Bhd[Ω*]	Malaysia	-	-	Special purpose vehicle
(xiv) Allegra Capital Investments Ltd[Ω@*]	British Virgin Islands	-	-	Special purpose vehicle
(xv) GoldPearl International Ltd[Ω@*]	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.

13 INVESTMENT IN ASSOCIATED COMPANIES

	The Group 2011 RM'000	2010 RM'000
Unquoted shares outside Malaysia, at cost	1,565,151	946,505
Cumulative share of results, net of dividend received	401,034	226,355
Fair value reserves - financial investments available-for-sale	(1,234)	(685)
	1,964,951	1,172,175

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

	The Group 2011 RM'000	2010 RM'000
Revenue	661,245	399,916
Profit after taxation	250,854	143,575

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

13 INVESTMENT IN ASSOCIATED COMPANIES (continued)

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

	The Group	
	2011 RM'000	2010 RM'000
Total assets	15,970,397	10,172,426
Total liabilities	14,478,819	9,394,984

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

		Percentage (%) of equity held	
	Principal activities	2011 %	2010 %
Bank of Chengdu Co., Ltd	Commercial banking	20	20
MSIG Insurance (Malaysia) Bhd	Insurance	30	-

14 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	The Group	
	2011 RM'000	2010 RM'000
Unquoted shares outside Malaysia, at cost	76,711	76,711
Cumulative share of results	(1,459)	(688)
	75,252	76,023

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

	The Group	
	2011 RM'000	2010 RM'000
Revenue	2,188	90
Loss after taxation	(771)	(688)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

14 INVESTMENT IN JOINTLY CONTROLLED ENTITY (continued)

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

	The Group	
	2011 RM'000	2010 RM'000
Total assets	72,101	74,206
Total liabilities	244	40

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

		Percentage (%) of equity held	
Name	Principal activities	2011 %	2010 %
Sichuan Jincheng Consumer Finance Limited Company	Consumer finance	49	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 Statement of Financial Position:

		The Group	
	Note	2011 RM'000	2010 RM'000
Deferred tax assets	(a)	611,676	193,443
Deferred tax liabilities	(b)	(33,792)	(17,305)
		577,884	176,138

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

15 DEFERRED TAXATION (continued)

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

(a) Deferred tax assets

The Group	Note	Loans, advances and financing RM'000	Property and equipment RM'000	Financial investments available-for-sale RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
2011							
At the beginning of financial year							
- as previously reported		144,907	(15,400)	(6,065)	51,470	18,531	193,443
- effect of adopting FRS 139	55	(210)	-	(26,363)	889	-	(25,684)
As restated		144,697	(15,400)	(32,428)	52,359	18,531	167,759
Acquisition of assets and liabilities of ECB	56	167,619	(30,536)	(7,649)	243,163	81,402	453,999
Credited/(charged) to statement of income	41	29,799	(3,045)	-	(13,480)	(21,688)	(8,414)
Transferred to equity		-	-	(1,668)	-	-	(1,668)
At the end of financial year		342,115	(48,981)	(41,745)	282,042	78,245	611,676
2010							
At the beginning of financial year		136,414	(8,221)	10,749	57,231	21,103	217,276
Credited/(charged) to statement of income	41	8,493	(7,179)	(2,145)	(5,761)	(2,572)	(9,164)
Transferred to equity		-	-	(14,669)	-	-	(14,669)
At the end of financial year		144,907	(15,400)	(6,065)	51,470	18,531	193,443

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

15 DEFERRED TAXATION (continued)

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

(b) Deferred tax liabilities

The Group	Note	Property and equipment RM'000	Other temporary differences RM'000	Financial investments available-for-sale RM'000	Total RM'000
2011					
At the beginning of financial year					
- as previously reported		(449)	(5,251)	(11,605)	(17,305)
- effect of adopting FRS 139		36	(1,444)	(80)	(1,488)
As restated		(413)	(6,695)	(11,685)	(18,793)
Charged to statement of income	41	(249)	(843)	-	(1,092)
Transferred from life fund		-	(2,966)	-	(2,966)
Transferred from equity		-	-	(10,941)	(10,941)
At the end of financial year		(662)	(10,504)	(22,626)	(33,792)
2010					
At the beginning of financial year					
- as previously stated		(3,822)	1,725	-	(2,097)
- changes in accounting policies		55	(3,778)	-	(3,723)
As restated		(3,767)	(2,053)	-	(5,820)
Charged to statement of income	41	3,318	(633)	3,599	6,284
Transferred from life fund		-	(2,565)	-	(2,565)
Transferred from equity		-	-	(15,204)	(15,204)
At the end of financial year		(449)	(5,251)	(11,605)	(17,305)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

16 PROPERTY AND EQUIPMENT

The Group		Land and building*	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Capital work in progress	Total
2011	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value at the beginning of financial year							
- as previously stated		452,779	96,830	58,864	6,018	27,168	641,659
- effect of adopting FRS 117 improvement	55	17,260	-	-	-	-	17,260
As restated		470,039	96,830	58,864	6,018	27,168	658,919
Acquisition of assets and liabilities of ECB	56	156,343	70,111	43,453	3,143	-	273,050
Exchange differences		(3,273)	(244)	(300)	20	-	(3,797)
Impairment		(819)	-	-	-	-	(819)
Additions		15,200	39,847	33,698	2,572	9,748	101,065
Disposals/write off		(309)	(228)	(1,740)	(14)	-	(2,291)
Depreciation charge during the financial year		(8,071)	(42,904)	(19,364)	(2,835)	-	(73,174)
Transfer from assets in disposal groups held for sale		819	1,687	4,622	171	-	7,299
Net book value at the end of financial year		629,929	165,099	119,233	9,075	36,916	960,252
At 30 June 2011							
Cost		698,308	701,120	333,524	19,503	36,916	1,789,371
Accumulated depreciation		(68,379)	(536,021)	(214,291)	(10,428)	-	(829,119)
Net book value		629,929	165,099	119,233	9,075	36,916	960,252

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

16 PROPERTY AND EQUIPMENT (continued)

* Land and building consists of the following:

The Group		Freehold land	Freehold building	Long term leasehold land	Long term leasehold building	Short term leasehold land	Short term leasehold building	Total
2011	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value at the beginning of financial year								
- as previously stated		101,220	132,663	-	216,988	-	1,908	452,779
- effect of adopting FRS 117 improvement	55	-	-	14,170	-	3,090	-	17,260
As restated		101,220	132,663	14,170	216,988	3,090	1,908	470,039
Acquisition of assets and liabilities of ECB		40,608	107,650	713	7,186	-	186	156,343
Exchange differences		-	-	-	(3,273)	-	-	(3,273)
Impairment		(218)	-	-	(601)	-	-	(819)
Additions		-	-	9,500	5,700	-	-	15,200
Disposals		-	(254)	(54)	(1)	-	-	(309)
Depreciation charge during the financial year		-	(3,200)	(225)	(4,564)	(45)	(37)	(8,071)
Transfer from assets in disposal groups held for sale		218	-	-	601	-	-	819
Net book value at the end of financial year		141,828	236,859	24,104	222,036	3,045	2,057	629,929
At 30 June 2011								
Cost		141,828	285,512	26,256	236,497	5,271	2,944	698,308
Accumulated depreciation		-	(48,653)	(2,152)	(14,461)	(2,226)	(887)	(68,379)
Net book value		141,828	236,859	24,104	222,036	3,045	2,057	629,929

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

16 PROPERTY AND EQUIPMENT (continued)

The Group		Land and building*	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Capital work in progress	Total
2010	**Note**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Net book value at the beginning of financial year							
- as previously stated		357,296	84,402	40,055	7,359	113,250	602,362
- effect of adopting FRS 117 improvement	55	10,123	-	-	-	-	10,123
As restated		367,419	84,402	40,055	7,359	113,250	612,485
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		(18,438)	(218)	(1,883)	(836)	-	(21,375)
Reclassification		86,348	-	-	-	(86,348)	-
Reclassification to intangible assets	19	-	-	-	-	(857)	(857)
Depreciation charge during the financial year		(7,028)	(38,576)	(14,389)	(2,766)	-	(62,759)
Transfer to assets in disposal groups held for sale	10	(6,508)	(1,968)	(4,794)	(206)	-	(13,476)
Net book value at the end of financial year		470,039	96,830	58,864	6,018	27,168	658,919
At 30 June 2010							
Cost		512,150	447,089	207,433	14,145	27,168	1,207,985
Accumulated depreciation		(42,111)	(350,259)	(148,569)	(8,127)	-	(549,066)
Net book value		470,039	96,830	58,864	6,018	27,168	658,919

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

16 PROPERTY AND EQUIPMENT (continued)

* Land and building consists of the following:

The Group		Freehold land	Freehold building	Long term leasehold land	Long term leasehold building	Short term leasehold land	Short term leasehold building	Total
2010	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value at the beginning of financial year								
- as previously stated		104,184	136,728	-	114,421	-	1,963	357,296
- effect of adopting FRS 117 improvement	55	-	-	7,033	-	3,090	-	10,123
As restated		104,184	136,728	7,033	114,421	3,090	1,963	367,419
Exchange differences		-	-	-	(1,492)	-	-	(1,492)
Additions		-	-	-	49,738	-	-	49,738
Disposals		(47)	(1,384)	-	(17,007)	-	-	(18,438)
Reclassification		(384)	1,082	7,137	78,532	-	(19)	86,348
Depreciation charge during the financial year		-	(2,985)	-	(4,007)	-	(36)	(7,028)
Transfer to assets in disposal groups held for sale		(2,533)	(778)	-	(3,197)	-	-	(6,508)
Net book value at the end of financial year		101,220	132,663	14,170	216,988	3,090	1,908	470,039
At 30 June 2010								
Cost		101,220	161,534	16,097	225,345	5,271	2,683	512,150
Accumulated depreciation		-	(28,871)	(1,927)	(8,357)	(2,181)	(775)	(42,111)
Net book value		101,220	132,663	14,170	216,988	3,090	1,908	470,039

The Company	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Total
2011	RM'000	RM'000	RM'000	RM'000
Net book value at the beginning of financial year	81	840	1,033	1,954
Additions	27	-	358	385
Write off	-	(7)	-	(7)
Depreciation charge during the financial year	(61)	(117)	(577)	(755)
Net book value at the end of financial year	47	716	814	1,577
At 30 June 2011				
Cost	451	1,391	3,069	4,911
Accumulated depreciation	(404)	(675)	(2,255)	(3,334)
Net book value	47	716	814	1,577

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

16 PROPERTY AND EQUIPMENT (continued)

The Company	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Total
2010	RM'000	RM'000	RM'000	RM'000
Net book value at the beginning of financial year	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 the end of financial year	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

17 INVESTMENT PROPERTIES

	The Group	
	2011 RM'000	2010 RM'000
Fair value		
At the beginning of financial year	**1,680**	1,600
Fair value gain	-	80
At the end of financial year	**1,680**	1,680
The analysis of investment properties is as follows:		
Leasehold land and building	**1,680**	1,680

The fair value of the properties was estimated at RM1,680,000 (2010: RM1,680,000) 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 2011
(continued)

18 GOODWILL ARISING ON CONSOLIDATION

		The Group	
	Note	2011 RM'000	2010 RM'000
At the beginning of financial year		574,408	572,265
Rateable goodwill attributable to share buy back of a subsidiary company		17,631	2,148
Goodwill arising during the financial year	(a)	1,117,012	235
Liquidation of subsidiary		-	(240)
Goodwill written off	(b)	(12,707)	-
At the end of financial year		1,696,344	574,408

Allocation of goodwill to cash-generating units

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

	The Group	
	2011 RM'000	2010 RM'000
CGU		
Commercial banking	1,532,184	397,541
Investment banking and asset management	99,803	99,803
Insurance	64,357	77,064
	1,696,344	574,408

(a) During the financial year, the goodwill arose from the acquisition of the assets and liabilities of ECB, which is based on management's best estimates as at 30 June 2011. As the acquisition of the assets and liabilities of ECB was completed close to the financial year ended 30 June 2011, the fair value adjustments in respect of assets and liabilities are in progress. As allowed by FRS 3 (revised), the fair value adjustments to the assets and liabilities of ECB and goodwill will be finalised in the next financial year.

(b) During the financial year, the Group wrote off goodwill of RM12,707,000 attributable to the Insurance CGU, arising from the Group's disposal of the general insurance business of HLA.

Impairment test for goodwill

The recoverable amount of the CGUs as at 30 June 2011 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 has been determined using the quoted market prices as at 30 June 2011 by Bursa Malaysia Securities Berhad.

(ii) Value-in-use

Insurance CGU

The fair value of the Insurance CGU is derived using the actuarial valuation for the Life insurance business. The actuarial valuation of the Life insurance fund is based on the latest position as at balance sheet date, using the most recent available assumptions at the point of assessment. Such assumptions are derived from historical experience of the insurer and current industry trends and positions.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

18 GOODWILL ARISING ON CONSOLIDATION (continued)

Impairment test for goodwill (continued)

(ii) **Value-in-use** (continued)

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 perpetuity.

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 14.7% 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.

19 INTANGIBLE ASSETS

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cost				
At the beginning of financial year	207,721	202,990	527	510
Additions	34,596	36,649	3	17
Acquisition of assets and liabilities of ECB (Note 56)	86,733	-	-	-
Disposals/write-off	(5,490)	(320)	(13)	-
Exchange fluctuation	(491)	-	-	-
Reclassifications from property and equipment (Note 16)	-	857	-	-
Transfer from/(to) assets in disposal groups held for sale (Note 10)	32,447	(32,455)	-	-
At the end of financial year	355,516	207,721	517	527
Accumulated amortisation				
At the beginning of financial year	153,306	162,530	403	280
Disposals/write-off	(5,299)	(297)	(13)	-
Acquisition of assets and liabilities of ECB (Note 56)	42,826	-	-	-
Amortisation during the financial year	23,846	21,968	115	123
Exchange fluctuation	13	-	-	-
Transfer from/(to) assets in disposal groups held for sale (Note 10)	30,895	(30,895)	-	-
At the end of financial year	245,587	153,306	505	403
Net book value	109,929	54,415	12	124

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

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

20 DEPOSITS FROM CUSTOMERS

	The Group	
	2011 RM'000	2010 RM'000
Fixed deposits	68,788,096	38,528,523
Negotiable instruments of deposit	5,584,465	2,580,634
	74,372,561	41,109,157
Demand deposits	14,893,230	7,964,808
Savings deposits	12,515,496	8,392,327
Short term corporate placements	12,561,243	11,759,585
Others	406,448	255,019
	114,748,978	69,480,896

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

	The Group	
	2011 RM'000	2010 RM'000
Due within:		
- six months	57,182,990	32,120,903
- six months to one year	12,967,434	7,891,046
- one year to three years	4,188,467	1,097,208
- three years to five years	33,670	-
	74,372,561	41,109,157

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

	The Group	
	2011 RM'000	2010 RM'000
Government and statutory bodies	5,777,465	856,715
Business enterprises	49,354,634	34,229,890
Individuals	51,479,665	33,353,132
Others	8,137,214	1,041,159
	114,748,978	69,480,896

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

21 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2011 RM'000	2010 RM'000
Licensed banks and investment banks	7,673,057	3,644,826
Bank Negara Malaysia	1,897,375	-
Licensed Islamic bank	581,968	-
Other financial institutions	1,293,260	832,567
	11,445,660	4,477,393

22 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Derivatives at fair value through profit or loss				
- interest rate swaps	347,975	368,975	2,342	3,454
- cross currency swaps	275,216	391,448	-	669
- foreign currency forwards	152,468	264,014	-	-
- foreign currency options	13,001	16,276	-	-
- futures	747	96	-	-
- equity options	4,434	204	-	-
- swaption	4,323	-	-	-
Total derivative financial instruments assets	798,164	1,041,013	2,342	4,123
Derivatives at fair value through profit or loss				
- interest rate swaps	(293,384)	(393,110)	(836)	-
- cross currency swaps	(187,944)	(333,731)	(7,601)	-
- foreign currency forwards	(178,225)	(290,731)	(17)	-
- foreign currency options	(13,968)	(16,372)	-	-
- equity options	(1,501)	(204)	-	-
- futures	(3,507)	(11,855)	-	-
- swaption	(3,569)	-	-	-
Derivatives designated as fair value hedge				
- interest rate swaps	-	(12,948)	-	-
Total derivative financial instruments liabilities	(682,098)	(1,058,951)	(8,454)	-

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

23 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM235,034,000 (2010: RM178,185,463).

24 PAYABLES AND OTHER LIABILITIES

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Trade payables	672,751	521,257	-	-
Amount due to other related companies	1,327	3,940	428	-
Other payables and accrued liabilities	1,248,235	1,377,697	5,525	4,645
Treasury clearing	546,481	554,455	-	-
Amount due to Cagamas Berhad	187,217	-	-	-
Interest payable	-	378,423	-	570
Post employment benefits obligation				
- defined contribution plan	4,779	5,419	17	15
Zakat	128	498	-	-
Profit equalisation reserve	2,298	5,255	-	-
Loan advance payment	1,122,560	982,043	-	-
	3,785,776	3,828,987	5,970	5,230

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

25 BORROWINGS

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Revolving credit	(a)	20,075	53,000	-	31,000
Commercial papers	(b)	678,381	219,507	678,381	219,507
Term loans	(c)	1,515,784	469,751	1,515,784	469,751
		2,214,240	742,258	2,194,165	720,258
Repayment of revolving credit					
- less than one year		20,075	53,000	-	31,000
Repayment of commercial papers					
- less than one year		678,381	219,507	678,381	219,507
Repayment of term loans					
- less than one year		1,403,669	350,000	1,403,669	350,000
- one to three years		112,115	119,751	112,115	119,751
		2,214,240	742,258	2,194,165	720,258

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

25 BORROWINGS (continued)

(a) The revolving credit facilities carry interest rates ranging from 3.62% to 4.16% (2010: ranging from 2.90% to 3.86%) per annum.

The bank loans are unsecured and repayable within 12 months.

(b) On 3 August 2007, the Company entered into a 7 years RM800 million CP/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 CPs carry interest rates ranging from 3.30% to 3.50% (2010: 2.25% to 2.77%).

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

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

(c) The Company has the following term loans for the financial year:

(i) an unsecured 3 years term loan of USD37 million maturing on 12 April 2013 with a cross currency swap. The term loan with three months interest period bears LIBOR interest rate of 1.28% (2010: 1.30%) per annum.

(ii) an unsecured 1 year term loan of RM200 million maturing on 2 July 2012. The term loan with one month interest period bears interest rate of 3.72% per annum.

(iii) an unsecured short term loan facility of RM1.2 billion maturing on 3 November 2011. The term loan with one month interest period bears interest rate of 3.82% per annum.

(iv) an unsecured short term loan facility of RM700 million was drawn down on 4 May 2011 with one month interest rate of 3.70% per annum. This facility was terminated on 3 June 2011.

26 SENIOR BONDS

	The Group	
	2011 RM'000	2010 RM'000
USD300 million senior bonds, at par	916,350	-
Foreign exchange translations	(9,750)	-
	906,600	-
Add: Interest payable	9,822	-
	916,422	-
Less: Unamortised discounts	(5,612)	-
	910,810	-

On 17 March 2011, HLB issued USD300 million in aggregate principal amount of Senior Bonds ("the Bonds"), which will mature in 2016. The Bonds bear interest at the rate of 3.75% which is payable semi-annually. The Bonds were issued at a price of 99.761 per cent of the principal amount of the Bonds.

The Bonds will constitute direct, general, unsubordinated and unsecured obligations of HLB which will at all times rank *parri passu* among themselves and at least *parri passu* with all other present and future unsecured obligations of HLB.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

27 SUBORDINATED OBLIGATIONS

		The Group	
	Note	2011 RM'000	2010 RM'000
RM700 million Tier 2 subordinated debt, at par	(a)	680,000	-
Add: Interest payable		12,565	-
		692,565	-
Less: Unamortised discounts		(2,792)	-
		689,773	-
RM1 billion Tier 2 subordinated debt, at par	(b)	1,000,000	-
Add: Interest payable		6,793	-
		1,006,793	-
Less: Unamortised discounts		(3,856)	-
		1,002,937	-
USD200 million subordinated obligations, at par	(c)	-	749,250
Foreign exchange translations		-	(101,734)
		-	647,516
Add: Unamortised fair value changes arising from terminated fair value hedge		-	2,954
Less: Unaccreted discount		-	(16)
		-	650,454
Subordinated medium term notes, at par	(d)	1,160,000	-
Add: Interest payable		8,983	-
		1,168,983	-
Less: Unamortised discounts		(23,750)	-
		1,145,233	-
		2,837,943	650,454

(a) On 10 August 2010, HLB had completed the first issuance of RM700 million nominal value of Tier 2 Subordinated Debt ("Sub Debt") out of its RM1.7 billion Tier 2 Subordinated Notes Programme. The RM700 million Sub Debt will mature in 2020 and is callable at the end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Sub Debt which bears interest of 4.85% per annum is payable semi-annually in arrears.

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

NOTES TO THE FINANCIAL STATEMENTS
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27 SUBORDINATED OBLIGATIONS (continued)

(b) On 5 May 2011, HLB issued the remaining RM1.0 billion nominal value of Sub Debt which will mature in 2021 and is callable at the end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The second issuance of Sub Debt bears interest at the rate of 4.35% per annum and is payable semi-annually in arrears.

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

(c) On 3 August 2010, HLB had fully redeemed its USD200 million Subordinated Callable Bonds Due 2015 ("Bonds"). The Bonds has been delisted from the Official Listing of the Singapore Exchange Securities Trading Limited following the redemption.

(d) On 27 February 2009, EON Bank Berhad ("EBB"), a wholly-owned subsidiary of HLB, has successfully issued the first tranche of RM410 million nominal value of the 10 non-callable 5 years Subordinated Medium Term Notes ("MTN") callable on 27 February 2014 (and thereafter) and due on 27 February 2019 under the RM2 billion Subordinated MTN Programme. The coupon rate of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date.

Subsequently, on 2 December 2009, EBB issued a second tranche of RM250 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 2 December 2014 (and thereafter) and due on 2 December 2019 under the RM2 billion Subordinated MTN Programme. The coupon rate of this second tranche of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate of this second tranche will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date; similar to the step-up rates in the first tranche.

Subsequently, on 30 December 2010, EBB issued a third tranche of RM500 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 30 December 2015 (and at each anniversary date thereafter) and due on 30 December 2020 under the RM2 billion Subordinated MTN Programme. The coupon rate of this third tranche of the Subordinated MTN is 4.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should HLB decide not to exercise its call option on the fifth (5) year from the issue date, or at each anniversary date thereafter, the coupon rate of this third tranche will remain at 4.75% per annum, from the beginning of the sixth (6) year to the final maturity date.

The above tranches of Subordinated MTNs constitute unsecured liabilities of EBB and are subordinated to all deposit liabilities and all other liabilities except those liabilities, which by their terms, rank equally in rights of payment with the Subordinated MTNs. The Subordinated MTNs qualify as Tier II capital for the purpose of determining the capital adequacy ratio of HLB and EBB.

28 NON-INNOVATIVE TIER 1 STAPLED SECURITIES

	The Group	
	2011 RM'000	2010 RM'000
RM1.4 billion Non-Innovative Tier 1 stapled securities, at par	1,400,000	-
Add: Interest payable	11,041	-
	1,411,041	-
Less: Unamortised discounts	(5,335)	-
	1,405,706	-

NOTES
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28 NON-INNOVATIVE TIER 1 STAPLED SECURITIES (continued)

On 5 May 2011, HLB had completed its issuance of Non-Innovative Tier 1 Stapled Securities ("NIT-1 Stapled Securities") of RM1.4 billion. The NIT-1 Stapled Securities which is perpetual in nature and callable at the end of year 5 and on each coupon payment date, pays a semi annual coupon of 5.05% per annum. The call option shall be subject to the approval of BNM.

The NIT-1 Stapled Securities constitute unsecured liabilities of HLB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLB in accordance with the terms and conditions of the issue and qualify as Tier 1 capital for the purpose of determining the capital adequacy ratio of HLB.

29 INNOVATIVE TIER 1 CAPITAL SECURITIES

	The Group	
	2011 RM'000	2010 RM'000
RM500 million Innovative Tier 1 capital securities, at par	500,000	-
Add: Interest payable	12,658	-
	512,658	-
Less: Unamortised discounts	(9,589)	-
	503,069	-

On 10 September 2009, EBB issued the first tranche of Innovative Tier 1 Capital Securities ("IT-1 Capital Securities") amounting to RM500 million in nominal value, from its RM1 billion IT-1 Capital Securities Programme. The IT-1 Capital Securities is structured in accordance with the Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) issued by BNM.

The RM500 million IT-1 Capital Securities has a tenor of 30 years and EBB has the option to redeem the RM500 million IT-1 Capital Securities at the 10th anniversary, subject to BNM approval. The RM500 million IT-1 Capital Securities has a coupon rate of 8.25% per annum, payable semi-annually. In the event the IT-1 Capital Securities is not redeemed at the 10th anniversary (the First Optional Redemption Date), the coupon rate will be revised to 9.25% per annum from the 11th year to the final maturity.

The IT-1 Capital Securities constitute unsecured and subordinated obligations of EBB and are subordinated to all deposit liabilities and all other liabilities except those liabilities which rank equally in, and/or junior to, the rights of payment of the IT-1 Capital Securities. The IT-1 Capital Securities qualify as Tier 1 capital for the purpose of computing the capital adequacy ratio of HLB and EBB.

30 INSURANCE FUNDS

	The Group	
	2011 RM'000	2010 RM'000
Unearned premium reserves	21,758	99,539
Life policyholders' fund	4,924,599	4,481,819
Fair value reserves - financial investments available-for-sale	241,050	122,826
Life investment-linked unitholders' fund	646,772	471,525
	5,834,179	5,175,709

NOTES
TO THE FINANCIAL STATEMENTS
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(continued)

30 INSURANCE FUNDS (continued)

The main insurance risks that the Group is exposed to are the following:

- Mortality risk – risk of loss arising due to policyholder's death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder's health experience being different than expected.
- Longevity risk – risk of loss arising due to the annuitants living longer than expected.
- Investment return/interest rate risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Lapse risk – risk of loss arising due to policyholder surrender experience being different than expected.

The risks vary in relation to the location of the risk insured by the Group, type of risk insured or by industry.

31 SHARE CAPITAL

	The Group and Company	
	2011 RM'000	2010 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 the beginning/end of financial year	1,052,768	1,052,768

There were no new shares issued by the Company during the financial year ended 30 June 2011.

32 RESERVES

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Retained profits	(a)	4,909,703	2,762,263	1,326,919	513,767
Share premium	(b)	117,229	117,229	117,229	117,229
Statutory reserve	(c)	1,241,179	1,190,262	-	-
Regulatory reserve	(d)	726	-	-	-
Fair value reserve	(e)	88,880	17,854	-	-
Other capital reserve	(f)	133,258	133,258	254,991	254,991
Share options reserve	(g)	34,965	26,655	13,557	10,827
Exchange fluctuation reserve	(h)	(36,857)	(3,174)	-	-
		6,489,083	4,244,347	1,712,696	896,814

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TO THE FINANCIAL STATEMENTS
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32 RESERVES (continued)

(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 2011, the Company is already under the single-tier tax system (2010: tax credits to frank payment of dividends out of the Company's retained profits to the extend of RM51,438,000). The Company also has no tax exempt income (2010: RM1,831,000) 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 regulatory reserves are maintained by the Group's banking subsidiary company in Vietnam in line with the requirements of the State Bank of Vietnam.

(e) Movement of the fair value reserve is as follows:

	The Group	
	2011 RM'000	2010 RM'000
As at beginning of the financial year	17,854	(19,429)
- effect of adopting FRS 139	52,304	-
As restated	70,158	(19,429)
Net gain from change in fair value	75,030	80,401
Reclassification adjustments to net profit on disposal and impairment (Note 37)	(43,150)	(13,242)
Deferred taxation (Note 15)	(12,609)	(29,873)
Share of fair value reserve of associated companies (Note 13)	(549)	(3)
Net change in fair value reserve	18,722	37,283
As at end of the financial year	88,880	17,854

(f) 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 not recognised in the statement of income due to a common control transaction, and investments and proceeds on issuance of replacement warrants used for bond redemption in previous years.

(g) 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 52 to the financial statements.

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

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
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33 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 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, 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 2011, the number of shares held by the appointed trustee was 12,270,408 shares (2010: 14,461,408) at an average price of RM4.55 per share (2010: RM4.45). The total consideration paid, including transaction costs was RM55,786,000 (2010: RM65,750,000).

Pursuant to the insurance subsidiary company’s ESOS scheme, the insurance subsidiary company also held 3,519,992 (2010: 2,768,992) units of the Company’s shares at an average price of RM4.75 (2010: RM4.49) per share with total consideration paid, including transaction costs of RM16,731,000 (2010: 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 52 to the financial statements.

34 INTEREST INCOME

	The Group		The Company	
	2011 RM’000	2010 RM’000	2011 RM’000	2010 RM’000
Loans, advances and financing	2,129,290	1,648,473	-	-
Money at call and deposit placements with financial institutions	544,107	361,026	1,048	179
Securities purchased under resale agreements	2,011	166	-	-
Financial assets held for trading	86,619	61,242	-	-
Financial investments available-for-sale	113,917	146,978	-	-
Financial investments held-to-maturity	447,036	377,418	-	-
Others	17,456	8,378	16,251	1,096
	3,340,436	2,603,681	17,299	1,275
Net interest suspended	-	(16,664)	-	-
	3,340,436	2,587,017	17,299	1,275
Of which:				
Interest income earned on impaired loans, advances and financing	25,274	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
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35 INTEREST EXPENSE

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposits and placements of banks and other financial institutions	89,191	34,296	-	-
Deposits from other customers	1,461,119	1,103,901	-	-
Subordinated obligations	66,708	35,089	-	-
Senior bonds	10,108	-	-	-
Non-innovative Tier 1 stapled securities	11,412	-	-	-
Innovative Tier 1 capital securities	6,392	-	-	-
Borrowings	30,637	17,855	29,788	14,564
Others	2,793	1,832	618	3
	1,678,360	1,192,973	30,406	14,567

36 INCOME FROM ISLAMIC BANKING BUSINESS

	The Group	
	2011 RM'000	2010 RM'000
Income derived from investment of depositors' funds and others	441,012	309,105
Income derived from investment of shareholders' funds	44,488	36,464
Profit equalisation reserve	2,938	(544)
Total distributable income	488,438	345,025
Income attributable to depositors	(261,348)	(160,188)
Total net income	227,090	184,837
Of which:		
Interest income earned on impaired loans, advances and financing	1,092	-

NOTES
TO THE FINANCIAL STATEMENTS
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(continued)

37 NON-INTEREST INCOME

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Insurance income	295,705	261,014	-	-
Brokerage income	83,518	51,431	-	-
Fee income				
Commissions	69,601	70,364	-	-
Service charges and fees	25,516	17,119	-	-
Guarantee fees	7,739	6,171	-	-
Credit card related fees	180,863	116,769	-	-
Corporate advisory fees	1,157	1,466	-	-
Commitment fees	16,322	12,862	-	-
Unit trust fee income	22,035	19,478	-	-
Other fee income	65,900	60,865	7,388	7,036
	389,133	305,094	7,388	7,036
Net income from securities				
Net realised gain/(loss) from sale/redemption of securities portfolio:				
- financial assets held for trading	50,551	29,850	(78)	(1,841)
- financial investments available-for-sale (Note 32)	43,150	13,242	-	-
- financial investments held-to-maturity	2,109	1,318	-	-
- derivatives	8,905	-	8,905	-
Dividend income from:				
- financial assets held for trading	7,571	596	7,208	419
- financial investments available-for-sale	31,978	17,730	-	-
- financial investments held-to-maturity	26,002	7,113	-	-
- subsidiary companies	-	-	228,491	228,378
Net unrealised gain/(loss) on revaluation of financial assets held for trading and derivatives	63,970	(10,130)	(10,205)	(2,230)
Net realised (loss)/gain on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges	(30,352)	513	-	-
Net unrealised gain on fair value changes arising from fair value hedges	27,805	3,472	-	-
	231,689	63,704	234,321	224,726

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

37 NON-INTEREST INCOME (continued)

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Other income				
Foreign exchange gain/(loss)	112,231	133,615	7,634	(1,720)
Rental income	1,740	1,149	-	-
Gain from capital redemption	-	-	937,500	-
Gain on sale of property and equipment	477	36,005	-	212
Other non-operating income	33,946	27,715	(4,104)	(663)
Gain on disposal of general insurance business	618,646	-	-	-
	767,040	198,484	941,030	(2,171)
	1,767,085	879,727	1,182,739	229,591

38 OVERHEAD EXPENSES

		The Group		The Company	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Personnel costs	(a)	686,600	548,704	15,194	10,464
Establishment costs	(b)	286,621	235,182	1,766	1,778
Marketing expenses	(c)	106,998	126,131	-	-
Administration and general expenses	(d)	256,125	140,120	16,182	2,531
		1,336,344	1,050,137	33,142	14,773

(a) Personnel costs comprise the following:

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Salaries, bonus and allowances	645,437	502,435	11,708	9,535
Other employees benefits	41,163	46,269	3,486	929
	686,600	548,704	15,194	10,464

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38 OVERHEAD EXPENSES (continued)

(b) Establishment costs comprise the following:

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Depreciation of property and equipment	65,801	55,303	755	756
Amortisation of intangible assets	21,930	18,058	115	123
Rental of premises	56,039	52,866	680	680
Information technology expenses	80,944	53,995	49	49
Others	61,907	54,960	167	170
	286,621	235,182	1,766	1,778

(c) Marketing expenses comprise the following:

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Advertisement and publicity	37,328	67,773	-	-
Handling fees	-	1,861	-	-
Credit card related fees	41,079	34,446	-	-
Others	28,591	22,051	-	-
	106,998	126,131	-	-

(d) Administration and general expenses comprise the following:

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Teletransmission expenses	8,482	10,027	33	34
Stationery and printing expenses	14,093	11,287	49	56
Professional fees	77,489	50,548	14,819	1,545
Insurance fees	12,515	16,326	-	-
Stamp, postage and courier	13,342	9,352	-	-
Corporate expenses	78,561	900	-	-
Others	51,643	41,680	1,281	896
	256,125	140,120	16,182	2,531

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TO THE FINANCIAL STATEMENTS
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38 OVERHEAD EXPENSES (continued)

(d) Administration and general expenses comprise the following: (continued)

The above expenditure includes the following statutory disclosures:

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Directors' remuneration (Note 40)	10,835	9,078	5,564	4,463
Hire of equipment	20	38	-	-
Auditors' remuneration:				
(i) PwC Malaysian firm				
- statutory audit	1,806	1,350	111	61
- audit related fees	1,585	665	20	5
- other services	-	505	-	230
- tax compliance	119	99	-	-
- other tax services	435	303	8	183
(ii) PwC overseas affiliated firms				
- statutory audit	220	205	-	-
- other services	102	235	-	-
Depreciation of property and equipment	65,801	55,303	755	756
Amortisation of intangible assets	21,930	18,058	115	123
Gain on sale of property and equipment	(477)	(36,005)	-	(212)
Allowance for/(writeback of) impairment losses	1,434	7,447	(309)	1,365
Property and equipment written off	-	-	7	-
Loss on disposal of intangible assets	191	-	-	-
Intangible assets written off	-	23	-	-
Options charge arising from ESOS	10,623	5,068	2,730	619

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39 ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES, FINANCING AND OTHER LOSSES

	The Group	
	2011 RM'000	2010 RM'000
Allowance for impairment on loans, advances and financing		
(a) Specific allowance		
- made during the financial year	-	289,510
- written back	-	(128,463)
(b) General allowance		
- made during the financial year	-	34,135
(c) Collective assessment allowance		
- made during the financial year	390,985	-
- written back	(101,290)	-
(d) Individual assessment allowance		
- made during the financial year	72,384	-
- written back	(83,718)	-
	278,361	195,182
Allowance for impairment on clients' and brokers' balances		
(a) Specific allowance		
- made during the financial year	-	831
- written back	-	(417)
(b) General allowance		
- made during the financial year	-	1,896
- written back	(1,905)	(41)
(c) Individual assessment allowance		
- made during the financial year	1,562	-
- written back	(1,442)	-
	(1,785)	2,269
Bad debts on loans, advances and financing		
- written off	10,576	8,799
- recovered	(150,631)	(98,283)
	(140,055)	(89,484)
	136,521	107,967

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TO THE FINANCIAL STATEMENTS
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40 DIRECTORS' REMUNERATION

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

	The Group				The Company			
2011	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000
Executive Directors								
Mr Choong Yee How	4,250	406 [N1]	32	4,688	4,250	-	32	4,282
Mr Quek Kon Sean	745	200 [N1]	1	946	745	-	1	746
	4,995	606	33	5,634	4,995	-	33	5,028
Non-Executive Directors								
YBhg Tan Sri Quek Leng Chan	-	427 [N1]	28	455	-	87 [N1]	28	115
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	-	270	-	270	-	107	-	107
Dr Poh Soon Sim	-	97	-	97	-	97	-	97
YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)	-	63	-	63	-	63	-	63
Ms Yvonne Chia	4,037	70 [N1]	35	4,142	-	-	-	-
Ms Lim Tau Kien	-	80	-	80	-	80	-	80
YBhg Dato' Haji Kamarulzaman bin Mohammed *(Retired on 26 October 2010)*	-	50	-	50	-	30	-	30
Ms Leong Bee Lian *(Resigned on 23 March 2011)*	-	44	-	44	-	44	-	44
	4,037	1,101	63	5,201	-	508	28	536
Total Directors' remuneration	9,032	1,707	96	10,835	4,995	508	61	5,564

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' remunerations are amounts paid to Directors in their capacities as Executive Directors for certain subsidiary companies.

[N1] These fees have been assigned in favour of the company where the Director is employed

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(continued)

40 DIRECTORS' REMUNERATION (continued)

	The Group				The Company			
2010	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits-in-kind RM'000	Total RM'000
Executive Directors								
Mr Choong Yee How	3,289	293 [N1]	32	3,614	3,289	-	32	3,321
Mr Quek Kon Sean	638	155 [N1]	1	794	638	-	1	639
	3,927	448	33	4,408	3,927	-	33	3,960
Non-Executive Directors								
YBhg Tan Sri Quek Leng Chan	-	386 [N1]	28	414	-	83 [N1]	28	111
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	-	282	-	282	-	107	-	107
Dr Poh Soon Sim	-	97	-	97	-	97	-	97
YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)	-	63	-	63	-	63	-	63
Ms Yvonne Chia	3,584	50 [N1]	35	3,669	-	-	-	-
Ms Lim Tau Kien *(Appointed on 8 April 2010)*	-	14	-	14	-	14	-	14
YBhg Dato' Haji Kamarulzaman bin Mohammed	-	117	-	117	-	97	-	97
Ms Leong Bee Lian *(Appointed on 8 April 2010)*	-	14	-	14	-	14	-	14
	3,584	1,023	63	4,670	-	475	28	503
Total Directors' remuneration	7,511	1,471	96	9,078	3,927	475	61	4,463

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' remunerations are amounts paid to Directors in their capacities as Executive Directors for certain subsidiary companies.

[N1] These fees have been assigned in favour of the company where the Director is employed

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41 TAXATION AND ZAKAT

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Malaysian income tax	335,863	281,649	53,348	52,394
Overseas income tax	241	-	-	-
Under/(over) accrual in prior years	4,241	(40,610)	-	(1,990)
Transfer to deferred taxation (Note 15)				
- current year	9,733	2,880	-	-
- over accrual in prior years	(227)	-	-	-
	9,506	2,880	-	-
Taxation	349,851	243,919	53,348	50,404
Zakat	128	498	-	-
	349,979	244,417	53,348	50,404

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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit before taxation and zakat	2,419,328	1,450,838	1,136,799	200,161
Tax calculated at a rate of 25% (2010: 25%)	604,832	362,710	284,200	50,040
Tax effects of:				
- Differences in tax rate of foreign inward and offshore insurance	(423)	(4,817)	-	-
- Income not subject to tax	(235,248)	(50,708)	(238,587)	(275)
- Share of net income of associates and joint venture company	(52,555)	(35,722)	-	-
- Expenses not deductible for tax purposes	30,077	14,274	7,735	2,629
- Tax savings from Islamic tax incentive	-	(143)	-	-
- Other temporarily differences not recognised previously	(433)	(1,065)	-	-
- Deferred tax not recognised during the year	(413)	-	-	-
- Over accrual (net of deferred tax effects)	4,014	(40,610)	-	(1,990)
Taxation	349,851	243,919	53,348	50,404

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
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41 TAXATION AND ZAKAT (continued)

	The Group	
	2011 RM'000	2010 RM'000
Tax losses		
Tax losses for which the related tax credit has not been recognised in the financial statements	54,009	53,989
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	2,065

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

42 EARNINGS PER SHARE

Basic earnings per share

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

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Net profit attributable to equity holders of the Company	1,671,914	860,847	1,083,451	149,757
Weighted average number of ordinary shares ('000)	1,036,978	1,035,538	1,040,498	1,038,307
Basic earnings per share (sen)	161.2	83.1	104.1	14.4

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential ordinary shares. For the share options, calculation is done to determine the number of shares that could been acquired at fair value based on the monetary value of the subscription rights attached to outstanding options. The Group's dilutive potential ordinary shares is share option, of which the impact of dilution is as below:

	The Group		The Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Net profit attributable to equity holders of the Company	1,671,914	860,847	1,083,451	149,757
Weighted average number of ordinary shares ('000)	1,036,978	1,035,538	1,040,498	1,038,307
Adjustment for ESOS shares ('000)	3,452	152	3,249	152
Diluted earnings per share (sen)	160.7	83.1	103.8	14.4

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

43 DIVIDENDS

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

	The Group and Company	
	2011 RM'000	2010 RM'000
First interim dividend of 6.3 sen per share less income tax at 25% and 0.17 sen per share tax exempt and 3.53 sen per share single tier (2010: 9 sen per share less income tax at 25%)	87,601	70,086
Second interim dividend of 15 sen per share (single tier)(2010: 8 sen per share less income tax at 25% and 6 sen tax exempt)	156,075	124,597
Special dividend of 3 sen per share (single tier)	31,215	-
	274,891	194,683

44 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.

The notional/principal amount of the commitments and contingencies constitute as follows:

	The Group	
	2011 Principal Amount RM'000	2010 Principal Amount RM'000
Direct credit substitutes	559,290	175,141
Certain transaction related contingent items	1,394,682	257,429
Short term self liquidating trade related contingencies	616,404	533,384
Underwriting obligation	92,238	-
Commitments that are unconditionally cancellable at any time without prior notice	302,249	267,940
Irrevocable commitments to extend credit:		
- maturity more than one year	12,488,631	4,947,481
- maturity less than one year	17,617,166	9,109,785
Foreign exchange related contracts:		
- less than one year	36,380,533	32,354,865
- one year to less than five years	1,854,371	6,231,476
- five years and above	250,376	268,230
Interest rate related contracts:		
- less than one year	13,318,799	10,621,714
- one year to less than five years	38,049,651	24,661,133
- five years and above	9,756,310	6,183,750
Equity related contracts:		
- less than one year	208,621	155,350
- one year to less than five years	16,600	32,900
Unutilised credit card lines	9,296,768	7,090,540
	142,202,689	102,891,118

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

44 COMMITMENTS AND CONTINGENCIES (continued)

(a) Group related commitments and contingencies (continued)

The Company's commitments and contingencies

	The Company	
	2011 RM'000	2010 RM'000
Forward foreign exchange	202,970	-
Interest rate swaps	600,000	250,000
Cross currency swaps	118,030	118,030
	921,000	368,030

(b) Other commitments and contingencies - unsecured

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

The size of each of the five funds was above the minimum of RM1 million as at 30 June 2011.

45 CAPITAL COMMITMENTS

	The Group	
	2011 RM'000	2010 RM'000
Approved and contracted for	87,114	74,074
Approved but not contracted for	51,131	13,538
	138,245	87,612

The capital commitments are in respect of property and equipment.

46 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, under non-cancellable operating lease commitment are as follows:

	The Group	
	2011 RM'000	2010 RM'000
Less than one year	7,697	8,062
More than one year but less than five years	10,224	11,009
More than 5 years	25,724	-

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
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47 HOLDING COMPANY

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

48 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 2011 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.

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

	Hong Leong Bank Group		Hong Leong Investment Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier-1 capital				
Paid-up share capital	**1,580,107**	1,580,107	**265,535**	265,535
Share premium	**539,664**	539,664	**-**	-
Other reserves [1]	**5,915,009**	5,063,400	**53,414**	21,688
Non-innovative Tier-1 stapled securities	**1,394,665**	-	**-**	-
Innovative Tier-1 capital securities	**490,273**	-	**-**	-
Less: Treasury shares	**(671,744)**	(687,908)	**-**	-
Less: Deferred tax assets	**(325,935)**	(140,137)	**(41,716)**	(52,597)
Less: Goodwill	**(1,360,174)**	-	**(30,236)**	(30,236)
Total Tier-1 capital	**7,561,865**	6,355,126	**246,997**	204,390
Tier-2 capital				
Subordinated obligations	**2,833,327**	647,500	**-**	-
Capital cumulative subordinated loan/redeemable preference shares	**2,300,000**	-	**1,631**	1,631
Collective assessment allowance[2]	**1,298,856**	-	**1,574**	-
General allowance for bad and doubtful debts	**-**	577,822	**-**	1,805
Total eligible Tier-2 capital	**6,432,183**	1,225,322	**3,205**	3,436
Total capital	**13,994,048**	7,580,448	**250,202**	207,826
Less: Investment in associated company	**(1,325,707)**	(1,172,175)	**-**	-
Less: Investment in subsidiaries	**-**	-	**(588)**	(588)
Less: Investment in jointly controlled entity	**(75,252)**	(76,023)	**-**	-
Total capital base	**12,593,089**	6,332,250	**249,614**	207,238
Capital ratios				
Core capital ratio	**8.43%**	15.72%	**38.20%**	33.06%
Risk-weighted capital ratio	**14.05%**	15.72%	**38.60%**	33.52%
Core capital ratio (net of proposed dividends)	**8.25%**	15.30%	**35.70%**	33.06%
Risk-weighted capital ratio (net of proposed dividends)	**13.86%**	15.30%	**36.10%**	33.52%

(1) Fair value reserve has been excluded from the banking subsidiaries' capital base.

(2) Excludes collective assessment allowance attributable to loans and advances classified as impaired but not individually assessed for impairment.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
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49 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, futures and stock broking, fund and unit trust management
Insurance	- Life and general insurance and takaful business
Other operations	- Investment holding and provision of management services

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TO THE FINANCIAL STATEMENTS
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49 SEGMENTAL INFORMATION (continued)

(a) Business segment reporting

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

The Group	Commercial banking	Investment banking	Insurance	Other operations	Eliminations/ Consolidation adjustments	Consolidated
2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue						
External sales	2,520,650	125,072	985,317	25,212	-	3,656,251
Inter-segment sales	18,435	5,437	6,615	9,294	(39,781)	-
Segment revenue	2,539,085	130,509	991,932	34,506	(39,781)	3,656,251
Overhead expenses	(1,201,073)	(81,942)	(47,070)	(46,040)	39,781	(1,336,344)
Write-off of goodwill	-	-	(12,707)	-	-	(12,707)
Allowances for losses on loans, advances and financing and other losses	(137,101)	574	6	-	-	(136,521)
Writeback of/(allowance for) impairment losses	2,094	-	(3,528)	-	-	(1,434)
Share of results of associated companies	210,992	-	39,862	-	-	250,854
Share of results of jointly controlled entity	(771)	-	-	-	-	(771)
Segment results	1,413,226	49,141	968,495	(11,534)	-	2,419,328
Taxation and zakat						(349,979)
Net profit for the financial year						2,069,349
Non-controlling interest						(397,435)
Profit attributable to owners of the parent						1,671,914
Other information						
Segment assets	134,901,981	2,668,539	7,672,974	2,725,052	(2,836,266)	145,132,280
Other corporate assets						11,053,287
Total consolidated assets						156,185,567
Segment liabilities	137,685,776	2,113,205	6,832,606	227,932	(3,128,137)	143,731,382
Other corporate liabilities						2,194,165
Total consolidated liabilities						145,925,547
Other significant segment items						
Capital expenditure	122,406	4,491	8,376	388	-	135,661
Depreciation of property and equipment	59,999	2,539	2,508	755	-	65,801
Amortisation of intangible assets	19,963	881	971	115	-	21,930

Notes :
1 Total segment revenue comprises of net interest income, income from Islamic banking business and non-interest income.
2. Unallocated assets and liabilities are not directly attributable to the business segments and cannot be allocated on a reasonable basis.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
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49 SEGMENTAL INFORMATION (continued)

(a) Business segment reporting (continued)

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

The Group	Commercial banking	Investment banking	Insurance	Other operations	Eliminations/ Consolidation adjustments	Consolidated
2010	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue						
External sales	2,066,801	82,456	334,685	(25,334)	-	2,458,608
Inter-segment sales	18,278	2,651	3,328	8,132	(32,389)	-
Segment revenue	2,085,079	85,107	338,013	(17,202)	(32,389)	2,458,608
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
Share of results of associated company	143,575	-	-	-	-	143,575
Share of results of jointly controlled entity	(688)	-	-	-	-	(688)
Segment results	1,213,408	20,446	249,107	(32,123)	-	1,450,838
Taxation and zakat						(244,417)
Net profit for the financial year						1,206,421
Non-controlling interest						(345,574)
Profit attributable to owners of the parent						860,847
Other information						
Segment assets	84,565,436	1,448,185	7,292,948	326,067	(205,310)	93,427,326
Non-current assets held for sale	-	-	577,544	-	-	577,544
Other corporate assets						215,753
Total consolidated assets						94,220,623
Segment liabilities	78,281,550	1,230,616	6,529,992	49,749	(659,378)	85,432,529
Liabilities directly associated with non-current assets held for sale	-	-	550,707	-	-	550,707
Other corporate liabilities						720,257
Total consolidated liabilities						86,703,493
Other significant segment items						
Capital expenditure	116,859	4,116	62,301	65	-	183,341
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 :
1 Total segment revenue comprises of net interest income, income from Islamic banking business and non-interest income.
2. Unallocated assets and liabilities are not directly attributable to the business segments and cannot be allocated on a reasonable basis.

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TO THE FINANCIAL STATEMENTS
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49 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	Non-current assets
	RM'000	RM'000
2011		
Malaysia	**3,474,707**	**1,207,032**
Overseas operations	**181,544**	**1,905,032**
	3,656,251	**3,112,064**
2010		
Malaysia	2,294,465	644,405
Overseas operations	164,143	1,318,807
	2,458,608	1,963,212

50 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
Malaysian Pacific Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("MPI Group")	Subsidiary and associated companies of ultimate holding company

NOTES
TO THE FINANCIAL STATEMENTS
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50 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
Narra Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("Narra Group")	Subsidiary and associated companies of ultimate holding company
HLMG Management Co Sdn Bhd (formerly known as HLI-Hume Management Co Sdn Bhd) ("HLMG"), Hume Cement Sdn Bhd, Hume Construction Sdn Bhd, Hume Plastics (Malaysia) Sdn Berhad, Hume Quarry (Sarawak) Sdn Bhd, Hongvilla Development Sdn Bhd, HIMB Overseas Limited, HIMB Trading Limited and Delta Touch Limited	Subsidiary companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiary and associated companies of ultimate holding company
Subsidiary companies of the Company as disclosed in Note 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

NOTES
TO THE FINANCIAL STATEMENTS
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(continued)

50 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions

Transactions with related parties are as follows:

	The Group		
2011	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
Income			
Interest on deposits	-	2,273	350
Interest on loans	-	-	114
Brokerage fee received	-	805	138
Insurance premium received	-	5,983	11
Others	-	5,277	6
	-	14,338	619
Expenditure			
Rental and maintenance	-	4,497	-
Interest on deposits	-	2,984	-
Management fees	-	21,613	-
Other miscellaneous expenses	-	2,749	-
	-	31,843	-
Amounts due from:			
Insurance premium receivable	-	58	-
Credit card	-	-	401
Others	-	18,165	-
	-	18,223	401
Amounts due to:			
Current account and fixed deposits	638	173,629	77,267
Others	-	21,456	-
	638	195,085	77,267

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TO THE FINANCIAL STATEMENTS
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50 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Group		
2010	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
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	-
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

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for the financial year ended 30 June 2011
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50 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
2011				
Income				
Interest on interbank placement	-	1,906	-	-
Management fee	-	7,388	-	-
Others	-	7,588	116	-
	-	16,882	116	-
Expenditure				
Insurance	-	31	-	-
Management fee	-	-	516	-
	-	31	516	-
Amounts due to:				
Others	-	15	428	-
Amounts due from:				
Current account	-	621	-	-
Others	-	2,357,479	-	-
	-	2,358,100	-	-
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	-	-

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TO THE FINANCIAL STATEMENTS
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50 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions (continued)

On 6 May 2011, the Company has provided HLB a Tier 2 Capital Cumulative Subordinated Loan Facility for RM2.3 billion pending the completion of a proposed rights issue exercise to be undertaken by HLB.

All amounts due from subsidiaries are unsecured, non interest bearing and expected to be repaid within 12 months except for amounts totalling RM2,357.4 million (2010: RM42.6 million) which bears interest rate ranging from 3.74% to 3.99% (2010: 2.35% to 3.14%) 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	
	2011 RM'000	2010 RM'000
The approved limit on loans, advances and financial for key management personnel	105	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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Salaries and other short-term employee benefits	12,175	10,008	6,904	5,392
	Units '000	Units '000	Units '000	Units '000
Share options balance of the Company	8,760	10,200	8,760	10,200

Included in the above is the Directors' compensation which is disclosed in Note 40.

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 2011 and 2010 for loans made to key management personnel.

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TO THE FINANCIAL STATEMENTS
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51 FINANCIAL INSTRUMENTS

(a) 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.

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.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Credit Risk Management (continued)

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.

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.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(a) Risk management objectives and policies (continued)

Commercial Banking (continued)

Liquidity Risk Management (continued)

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

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

An Operational Risk Management Framework is being implemented across the Banking Group to all business and support units. The Framework consists of processes and tools that will assist these units to identify, assess, monitor and control their operational risks.

Additionally, on a day-to-day basis, each business and supporting unit level practises operational risk management through establishing and maintaining control/procedures that are appropriate for its operating environment. Integral elements such as sound banking processes, internal control, and additional support from group-wide functions such as internal audit, banking operations (including system and methods), compliance and financial control and risk management are used to manage these risks.

Within the Banking Group, operational risk management is manifested in:

* Manuals and policies that incorporate internal control processes.
* Human resources development and training programmes.
* System controls and procedures governing IT usage in all banking products.
* Establishment of spesific policies and standards across all product lines.
* Banking Group's Business Continuity Plan that looks into it's business resumption in an organised and timely manner in time of disaster.
* Banking Group's New Product Process to ensure that before new products and activities are being introduced, they are subject to proper risk assessments and possess adequate procedures and controls.

Investment Banking

Risk management is one of the core activities of the Investment Banking Group to strike a balance between sound practices and risk-return. An effective risk management is therefore vital to ensure that the Investment Banking Group conducts its business in a prudent manner to ensure that the risk of potential losses is reduced.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(a) Risk management objectives and policies (continued)

Investment Banking (continued)

Market risk

Market risk is the risk of loss arising from adverse fluctuation in market prices, such as interest rates, equity prices and foreign currency. The Investment Banking Group monitors all such exposures arising from trading activities of the treasury and stockbroking business activities on a daily basis and management is alerted on the financial impact of these risks. To mitigate market risk, the Investment Banking Group also uses derivative financial instruments.

The Investment Banking Group has in place a set of policies, guidelines, measurement methodologies and control limits which includes Value-at-Risk ("VaR"), Present-Value-Basis-Point ("PVBP"), Management Action Trigger ("MAT"), notional limits and concentration limits to mitigating market risk.

Stress testing is also employed to capture the potential market risk exposures from unexpected market movements. Concerns and significant findings are communicated to the senior management at the Assets and Liabilities Management Committee ("ALMCO") and to the Board.

Operational Risk

Operational risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes and controls due to error, inefficiencies, omission and unauthorised access, including external events beyond the control of the Investment Banking Group. In order to reduce or mitigate this risk, the Investment Banking Group has established internal control mechanisms within the various levels of the organisation, which include the setting up of procedural and control systems by the various units to manage the day-to-day operational risk inherent in their respective business and functional areas.

The Operational Risk Management ("ORM") Policy is in place to ensure that controls and segregation of duties exists to mitigate operational risks. The Investment Banking Group has taken an initiative to promote operational risk awareness among its staff and an in-house awareness programme was completed in 2011. The Investment Banking Group has begun presenting loss data reports on monthly basis to the senior management and the Board. This will also provide the foundation for mapping and collecting data on loss events and self-assessment models in subsequent phases of the ORM initiatives.

Liquidity risk

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 arises from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Investment Banking Group's policy to ensure that there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, credit limits and monitoring procedures. Credit risk includes settlement risk, default risk and concentration risk. Exposure to credit risk arises mainly from financing, underwriting, securities and derivative exposures of the Investment Banking Group.

The Investment Banking Group has set out Board approved policies and guidelines for the management of credit risk. To oversee all credit related matters of the Investment Banking Group, the Management Credit and Underwriting Committee ("MCUC") was setup in 2011 in addition to an independent Credit Department.

The Board has delegated appropriate Delegation of Authority to the MCUC and senior management for the approval of credit facilities. Credit limit setting for Treasury activities are endorsed by the MCUC and approved by the Board at least annually. Adherence to established credit policies, guidelines and limits is monitored daily by the Credit Control Department, Credit Department and the Risk Management Department.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(a) Risk management objectives and policies (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 counterparty to service its debt obligations. The credit risk and investment activities is monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved by the Board of Directors and the authorities.

At the date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board of Directors and the authorities. 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.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(a) Risk management objectives and policies (continued)

Insurance (continued)

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.

(b) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates, foreign currency rates and equity risk, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group and the Company as at 30 June 2011.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. In reality, the Group and the Company proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

(i) Interest/profit rate risk sensitivity analysis

The interest/profit rate sensitivity results below shows the impact on profit after tax and equity of financial assets or financial liabilities bearing floating interest/profit rates.

	The Group		The Company	
2011	Impact on profit after tax RM'000	Impact on equity RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
+ 100 basis points ('bps')	257,867	(96,913)	40,542	-
– 100 bps	(257,611)	(98,095)	(40,287)	-

(ii) Foreign currency risk sensitivity analysis

The Group and the Company take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Foreign currency risk sensitivity analysis (continued)

The table below sets out the principal structure of foreign exchange exposures (net of investment hedges) of the Group and the Company:

2011	The Group RM'000	The Company RM'000
United States Dollar ("USD")	362,592	-
Euro ("EUR")	59,003	-
Great Britain Pound ("GBP")	(10,049)	-
Singapore Dollar ("SGD")	85,818	-
Others	753,126	202,959
	1,250,490	202,959

An analysis of the exposures to assess the impact of a one per cent change in the RM exchange rates to the profit after tax are as follows:

2011	The Group RM'000	The Company RM'000
+ 1%	10,051	(2,026)
– 1%	(10,051)	2,026

(iii) Equity risk

Equity risk refers to the impact of change in equity positions held by the Group for yield purposes.

	The Group	
2011	Impact on profit after tax RM'000	Impact on equity RM'000
+ 20% change in equity market price	12,549	103,430
– 20% change in equity market price	(12,549)	(103,430)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk

The tables below summarise the Group's and the Company's exposure to interest/profit 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/profit 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								
	Non–trading book							
2011	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 12 months RM'000	>1 to 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	30,654,969	-	-	-	-	1,770,022	-	32,424,991
Securities purchased under resale agreements	86,509	73,261	-	-	-	-	-	159,770
Deposits and placements with banks and other financial institutions	-	4,329,082	856,122	-	25,897	2,294	-	5,213,395
Financial assets held for trading	-	-	-	-	-	-	6,974,724	6,974,724
Financial investments available-for-sale	630,107	735,856	825,863	5,784,025	1,305,491	1,464,135	-	10,745,477
Financial investments held-to-maturity	1,407,090	1,846,733	2,056,281	2,630,526	138,027	62,677	-	8,141,334
Derivative financial assets	-	-	-	-	-	-	798,164	798,164
Loans, advances and financing	59,481,450	646,974	1,252,407	8,692,434	11,985,467	676,745	-	82,735,477
Clients' and brokers' balances	-	-	-	-	-	236,393	-	236,393
Other receivables	-	-	-	-	-	1,139,432	-	1,139,432
Total assets	92,260,125	7,631,906	4,990,673	17,106,985	13,454,882	5,351,698	7,772,888	148,569,157

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The Group								
	Non–trading book							
2011	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 12 months RM'000	> 1 to 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	55,949,315	17,137,971	23,492,109	3,732,137	-	14,437,446	-	114,748,978
Deposits and placements of banks and other financial institutions	4,957,555	4,706,293	1,472,897	170,800	126,708	11,407	-	11,445,660
Bills and acceptance payable	113,266	79,081	11,794	-	-	479,855	-	683,996
Derivative financial liabilities	-	-	-	-	-	-	682,098	682,098
Clients' and brokers' balances	-	-	-	-	-	591,595	-	591,595
Payables and other liabilities	-	-	-	-	187,217	3,598,559	-	3,785,776
Provision for claims	-	-	-	-	-	63,763	-	63,763
Borrowings	1,735,805	478,435	-	-	-	-	-	2,214,240
Senior Bonds	-	-	-	910,810	-	-	-	910,810
Subordinated obligations	-	-	-	2,837,943	-	-	-	2,837,943
Insurance funds	-	-	-	-	-	5,834,179	-	5,834,179
Non-innovative Tier 1 stapled securities	-	-	-	1,405,706	-	-	-	1,405,706
Innovative Tier 1 capital securities	-	-	-	503,069	-	-	-	503,069
Total liabilities	62,755,941	22,401,780	24,976,800	9,560,465	313,925	25,016,804	682,098	145,707,813
Net interest sensitivity gap for items recognised in the statement of financial position	29,504,184	(14,769,874)	(19,986,127)	7,546,520	13,140,957			
Net interest sensitivity gap for items not recognised in the statement of financial position								
Financial guarantees	-	-	-	-	-	1,962,597		
Credit related commitments and contingencies	-	-	-	-	-	39,725,052		
	-	-	-	-	-	41,687,649		

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(iv) Interest/profit rate risk (continued)

The Company								
	Non-trading book							
2011	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 12 months RM'000	>1 to 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	114,050	-	-	-	-	629	-	114,679
Financial assets held for trading	-	-	-	-	-	-	37,814	37,814
Derivative financial assets	-	-	-	-	-	-	2,342	2,342
Other receivables	-	-	-	-	-	2,554	-	2,554
Amount due from subsidiaries	43,290	-	2,314,114	-	-	75	-	2,357,479
Total assets	157,340	-	2,314,114	-	-	3,258	40,156	2,514,868
Liabilities								
Derivative financial liabilities	-	-	-	-	-	-	8,454	8,454
Payables and other liabilities	-	-	-	-	-	5,985	-	5,985
Borrowings								
- Bank loans	1,515,784	-	-	-	-	-	-	1,515,784
- Commercial papers	199,946	478,435	-	-	-	-	-	678,381
Total liabilities	1,715,730	478,435	-	-	-	5,985	8,454	2,208,604
Net interest sensitivity gap for items recognised in the statement of financial position	(1,558,390)	(478,435)	2,314,114	-	-			

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

Liquidity risk is defined as the current and prospective risk asiring from the inability of the Group and the Company to meet its contractual or regulatory obligations when they become due without incurring substantial losses. The liquidity risk is identified based on concentration, volatility of source of fund and funding maturity structure and it is measured primarily using Bank Negara Malaysia's New Liquidity Framework and depositor's concentration ratios. The Group and the Company seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity.

	The Group							
2011	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short term funds	21,742,119	10,682,872	-	-	-	-	-	32,424,991
Securities purchased under resale agreement	86	86,423	73,261	-	-	-	-	159,770
Deposits and placements with banks and other financial institutions	-	-	4,330,613	613,624	243,261	25,897	-	5,213,395
Financial assets held for trading	359,520	1,856,735	3,133,910	78,484	148,128	928,724	469,223	6,974,724
Financial investments available-for-sale	70,453	607,528	539,782	197,460	664,279	7,234,160	1,431,815	10,745,477
Financial investments held-to-maturity	350,847	1,061,887	1,842,032	390,801	1,663,021	2,798,680	34,066	8,141,334
Derivative financial assets	80,083	22,120	57,341	16,975	160,292	461,269	84	798,164
Loans, advances and financing	24,511,883	6,185,809	3,170,501	1,222,659	2,134,966	45,509,659	-	82,735,477
Clients' and brokers' balances	169,733	-	-	-	66,660	-	-	236,393
Other assets	413,377	38,234	39,199	-	127,543	-	521,079	1,139,432
Statutory deposits with Bank Negara Malaysia	-	-	-	692	-	-	2,219,674	2,220,366
Tax recoverable	-	-	-	-	-	-	9,752	9,752
Investment in associated company	-	-	-	-	-	-	1,964,951	1,964,951
Investment in jointly controlled entity	-	-	-	-	-	-	75,252	75,252
Property and equipment	-	-	-	-	-	-	960,252	960,252
Investment properties	-	-	-	-	-	-	1,680	1,680
Intangible assets	-	-	-	-	-	-	109,929	109,929
Goodwill	-	-	-	-	-	-	1,696,344	1,696,344
Deferred tax assets	-	-	-	-	18,110	24,201	535,573	577,884
Total assets	47,698,101	20,541,608	13,186,639	2,520,695	5,226,260	56,982,590	10,029,674	156,185,567

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011 (continued)

51 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

The Group								
2011	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	43,508,516	26,376,772	17,339,479	10,660,988	13,121,843	3,741,380	-	114,748,978
Deposits and placements of banks and other financial institutions	2,830,557	2,859,951	4,006,745	75,101	1,404,945	265,740	2,621	11,445,660
Bills and acceptances payable	147,996	111,422	79,082	11,251	543	-	333,702	683,996
Derivative financial liabilities	41,183	32,977	84,390	28,850	140,991	353,707	-	682,098
Clients' and brokers' balances	591,595	-	-	-	-	-	-	591,595
Payables and other liabilities	1,900,267	352	28,436	-	907,803	187,380	761,538	3,785,776
Provision for claims	-	-	-	-	63,763	-	-	63,763
Provision for taxation	-	-	-	-	20,391	-	197,343	217,734
Borrowings	-	218,456	480,000	-	1,403,669	112,115	-	2,214,240
Senior bonds	-	-	-	-	-	910,810	-	910,810
Subordinated obligations	-	-	-	-	-	2,837,943	-	2,837,943
Non-innovative Tier 1 stapled securities	-	-	-	-	-	1,405,706	-	1,405,706
Innovative Tier 1 capital securities	-	-	-	-	-	503,069	-	503,069
Insurance funds	-	-	-	-	1,632,146	4,202,033	-	5,834,179
Total liabilities	49,020,114	29,599,930	22,018,132	10,776,190	18,696,094	14,519,883	1,295,204	145,925,547
Total equity	-	-	-	-	-	-	10,260,020	10,260,020
Total liabilities and equity	49,020,114	29,599,930	22,018,132	10,776,190	18,696,094	14,519,883	11,555,224	156,185,567
Net liquidity gap	(1,322,013)	(9,058,322)	(8,831,493)	(8,255,495)	(13,469,834)	42,462,707	8,734,470	10,260,020

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

The Company								
2011	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short term funds	629	114,050	-	-	-	-	-	114,679
Financial assets held for trading	-	-	-	-	-	-	37,814	37,814
Derivative financial assets	-	-	-	-	-	2,342	-	2,342
Other receivables	-	-	-	-	-	-	2,554	2,554
Amount due from subsidiaries	-	-	-	-	-	2,314,114	43,365	2,357,479
Tax recoverable	-	-	-	-	-	-	8,475	8,475
Investment in subsidiary companies	-	-	-	-	-	-	2,393,350	2,393,350
Property and equipment	-	-	-	-	-	-	1,577	1,577
Intangible asset	-	-	-	-	-	-	12	12
Total assets	629	114,050	-	-	-	2,316,456	2,487,147	4,918,282
Liabilities								
Payables and other liabilities	-	-	-	-	-	-	5,985	5,985
Derivative financial liabilities	-	-	-	-	-	8,454	-	8,454
Borrowings								
- Bank loans	-	-	-	-	1,403,669	112,115	-	1,515,784
- Commercial papers	-	198,381	480,000	-	-	-	-	678,381
Total liabilities	-	198,381	480,000	-	1,403,669	120,569	5,985	2,208,604
Net liquidity gap	629	(84,331)	(480,000)	-	(1,403,669)	2,195,887	2,481,162	2,709,678

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

The following table shows the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

	The Group					
2011	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities						
Deposits from customers	75,951,302	21,814,974	15,218,514	2,446,641	-	115,431,431
Deposits and placements of banks and other financial institutions	7,688,253	3,583,457	226,265	-	-	11,497,975
Bills and acceptances payable	591,703	59,332	9,087	-	-	660,122
Derivative financial liabilities						
- Gross settled derivatives						
- Inflow	(8,093,914)	(5,694,334)	(5,994,982)	(1,506,353)	-	(21,289,583)
- Outflow	8,127,034	5,713,716	6,127,019	1,597,864	-	21,565,633
- Net settled derivatives	28,804	39,036	111,770	319,244	18	498,872
Clients' and brokers' balances	591,595	-	-	-	-	591,595
Payables and other liabilities	2,289,554	-	908,216	-	-	3,197,770
Provision for claims	-	-	63,763	-	-	63,763
Borrowings	26,626	13,023	1,230,679	1,055,236	-	2,325,564
Senior bonds	-	17,181	17,182	1,053,803	-	1,088,166
Subordinated obligations	-	28,278	109,903	3,295,643	-	3,433,824
Insurance funds	-	-	1,631,198	268,395	12,329,472	14,229,065
Non-innovative Tier 1 stapled securities	-	-	35,350	1,718,150	-	1,753,500
Innovative Tier 1 capital securities	-	41,250	20,625	165,000	644,375	871,250
Total financial liabilities	87,200,957	25,615,913	19,714,589	10,413,623	12,973,865	155,918,947

	The Company					
2011	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities						
Payables and other liabilities	5,985	-	-	-	-	5,985
Derivative financial liabilities						
- Gross settled derivatives						
- Inflow	-	(124,397)	(78,562)	-	-	(202,959)
- Outflow	-	125,223	77,747	-	-	202,970
- Net settled derivatives	224	602	5,616	17,350	-	23,792
Borrowings						
- Bank loans	4,505	9,050	1,213,120	318,203	-	1,544,878
- Commercial papers	1,987	3,973	17,559	737,033	-	760,552
Total financial liabilities	12,701	14,451	1,235,480	1,072,586	-	2,335,218

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

The following table presents the contractial expiry by maturity of the Group's commitments and contingencies:

	The Group		
2011	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	559,290	-	559,290
Certain transaction related contingent items	1,036,602	-	1,036,602
Commitments that are unconditionally cancellable at any time without prior notice	302,249	-	302,249
Short term self liquidating trade related contingencies	294,705	-	294,705
Underwriting obligations	92,238	-	92,238
Irrevocable commitments to extend credit	17,617,166	12,488,631	30,105,797
Unutilised credit card line	9,296,768	-	9,296,768
Total commitments and contingencies	29,199,018	12,488,631	41,687,649

(d) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as off balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Company would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Group and the Company:

	The Group	The Company
2011	RM'000	RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds and placements with banks and other financial institutions (exclude cash in hand)	37,059,840	114,679
Securities purchased under resale agreement	159,770	-
Financial assets and investments portfolios (exclude shares)		
- Financial assets held for trading	6,533,192	37,814
- Financial investments available-for-sale	9,313,664	-
- Financial investments held-to-maturity	8,141,334	-
Loans, advances and financing	82,735,477	-
Clients' and brokers' balances	169,733	-
Other receivables	702,479	2,554
Derivative assets	798,081	2,342
	145,613,570	157,389
Credit risk exposure relating to off-balance sheet items:		
Commitments and contingencies	41,687,649	-
Total maximum credit risk exposure	187,301,219	157,389

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(ii) Collaterals

The main type of collaterals obtained by the Group are as follows:

(a) Fixed deposits, mudharabah general investment account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Vessels and automobiles
(d) Quoted shares, unit trust, Malaysian Governments Bonds and securities and private debt securities
(e) Endowment life policies with cash surrender value
(f) Other tangible business assets, such as inventory and equipment

The Group also accept non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

(iii) Credit Quality

The Group assess credit quality of loans and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

The credit quality of financial assets other than loans, and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other internationals rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

(a) Loans, advances and financing

Loans, advances and financing are summarised as follows:

	The Group
2011	**RM'000**
Neither past due nor impaired	73,883,672
Past due but not impaired	9,190,058
Individually impaired	1,892,304
Gross loans, advances and financing	84,966,034
Unamortised fair value changes arising from terminated fair value hedges	17,177
Less : Allowance for impaired loans, advances and financing	
- Individual assessment allowance	(670,993)
- Collective assessment allowance	(1,576,741)
Net loans, advances and financing	82,735,477

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(i) Loans, advances and financing neither past due nor impaired (continued)

Analysis of loans, advances and financing that are neither past due nor impaired analysed based on the Group's credit grading system is as follows:

		2011 RM'000
Hong Leong Bank Group		
Consumer loans/financing		
Risk Grade		
Good		29,608,985
Weakest		391,613
		30,000,598
Corporates loans/financing		
Risk Grade	Credit Quality	
A	Exceptional	460,080
B+	Superior	2,359,916
B	Excellent	2,213,906
B-	Strong	1,718,236
C+	Good	1,191,087
C	Satisfactory	1,443,663
C-	Fair	660,143
D+	Adequate	484,629
D	Marginal	34,315
Un-graded		105,332
		10,671,307

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(i) Loans, advances and financing neither past due nor impaired (continued)

		2011 RM'000
Attributable from Hong Leong Bank Group subsidiaries: EON Bank Berhad Group		
Consumer loans/financing		
Risk Grade	Credit Quality	
1-3	Good	6,935,550
4-5	Average	805,311
6	Weakest	631,560
Un-graded		13,895,628
		22,268,049
Corporates loans/financing		
Risk Grade	Credit Quality	
1-2	Good	1,854,216
3-4	↑	3,100,737
5-6		3,998,793
7-8	↓	1,185,531
9	Weakest	22,772
		10,162,049
Total HLB Group neither past due nor impaired		73,102,003
Hong Leong Capital Berhad Group		
Risk Grade		
Good		104,924
HLA Holdings Group		
Risk Grade		
Ungraded		676,745
The Group total neither past due nor impaired		73,883,672

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(a) Loans, advances and financing (continued)

(ii) Loans, advances and financing past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans, advances and financing by class to customers that were past due but not impaired were as follows:

	The Group
2011	RM'000
Past due up to 30 days	6,306,805
Past due 30-60 days	2,110,685
Past due 60-90 days	772,568
Past due but not impaired	9,190,058

The fair value of collateral held as security in respect of loans, advances and financing past due but not impaired is not disclosed by the Group as it is not practicable to do so.

(iii) Loans, advances and financing that are individually determined to be impaired as at 30 June 2011 are as follows:

	The Group
2011	RM'000
Gross amount of individually impaired loans	1,892,304
Less: Individual assessment impairment allowance	(670,993)
Less: Collective assessment impairment allowance	(265,037)
Total net amount individually impaired loans	956,274
Fair value of collateral	1,417,116

Note: fair value is define as force sale value/reserve price, whichever is lower for properties and auto vehicle.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011 (continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(iii) ***Credit Quality*** (continued)

(b) *Short term funds, deposits and placements with bank and other financial institutions, financial assets and investments portfolios, other receivables and derivative assets.*

Analysis of short term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other receivables and derivative assets by rating agency designation as at 30 June 2011, based on Moody's ratings or its equivalent are as follows:

2011	Short term funds and deposits and placements with banks and other financial institutions RM'000	Securities purchased under resale agreements RM'000	Financial assets held for trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Client's and brokers' balances RM'000	Other receivables RM'000	Derivative assets RM'000
The Group								
Neither past due nor impaired								
AAA to AA3	2,243,915	-	531,004	3,522,323	502,637	-	11,213	336,725
A1 to A3	5,198,402	-	167,908	811,737	-	-	30,108	59,183
Baa1 to Baa3	1,542,605	-	68,210	149,557	76,710	-	-	3,832
P1 to P3	733,667	-	20,143	-	-	-	-	3,367
Non-rated	27,341,251	159,770	5,745,927	4,810,643	7,512,764	169,525	661,158	394,974
	37,059,840	159,770	6,533,192	9,294,260	8,092,111	169,525	702,479	798,081
Individually impaired	-	-	-	19,404	49,223	208	-	-
	37,059,840	159,770	6,533,192	9,313,664	8,141,334	169,733	702,479	798,081

The amount of short term funds, deposits and placements with banks and other financial institutions, financial assets and investment portfolios, other receivables and derivative assets that are past due but not impaired is not material.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(iii) Credit Quality (continued)

(b) *Short term funds, deposits and placements with bank and other financial institutions, financial assets and investments portfolios, other receivables and derivative assets.* (continued)

2011	Short term funds and deposits and placements with banks and others financial institutions RM'000	Financial assets held for trading RM'000	Other receivables RM'000	Derivative assets RM'000
The Company				
Neither past due nor impaired				
AAA to AA3	114,679	-	-	-
A1 to A3	-	-	-	-
Baa1 to Baa3	-	-	-	-
P1 to P3	-	-	-	-
Non-rated	-	37,814	2,554	2,342
	114,679	37,814	2,554	2,342
Individually impaired	-	-	-	-
	114,679	37,814	2,554	2,342

(iv) Loans, advances and financing renegotiated

Credit facilities are classified as rescheduled and restructured ("R&R") assets when the Group grant concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A R&R credit facility is classified into the appropriate facility grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the R&R terms.

R&R assets are not classified as non impaired until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the R&R terms during the observable period.

	The Group
2011	RM'000
Carrying amount of renegotiated loans, advances and financing that would otherwise be past due or impaired	485,110

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk (continued)

(v) Collateral and other credit enhancements obtained

	The Group
2011	RM'000
Properties	1,458

Repossessed properties are made available for sale in an orderly fashion with the proceeds used to reduce or repay the outstanding indebtedness. The Group generally does not occupy the premises repossessed for its business use.

(e) Fair value of financial instruments

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

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

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

Short term funds and placements with financial institutions

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

Securities purchased under resale agreements

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

Financial assets held for trading, financial investments 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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(e) Fair value of financial instruments (continued)

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.

Subordinated obligations, senior bonds, capital securities and stapled securities

The fair value of subordinated obligations, senior bonds, capital securities and stapled securities are based on quoted market prices.

Credit related commitments 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.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

51 FINANCIAL INSTRUMENTS (continued)

(e) Fair value of financial instruments (continued)

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		The Group	
	2011		2010	
	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#	82,735,477	82,382,538	38,522,242	38,149,936

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 revised 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, deferred tax assets and provision for taxation.

52 EQUITY COMPENSATION BENEFITS

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

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

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

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

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

(a) 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.

(b) 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.

(c) The Scheme shall be in force for a period of ten (10) years from 23 January 2006.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

52 EQUITY COMPENSATION BENEFITS (continued)

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

(d) 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.

(e) 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.

(f) 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.

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

	The Group		The Group	
	2011		2010	
	Number of trust shares held '000	Cost RM'000	Number of trust shares held '000	Cost RM'000
At 1 July	17,230	78,171	17,230	78,171
Exercise of ESOS	(1,440)	(5,654)	-	-
At 30 June	15,790	72,517	17,230	78,171

	The Company		The Company	
	2011		2010	
	Number of trust shares held '000	Cost RM'000	Number of trust shares held '000	Cost RM'000
At 1 July	14,461	65,750	14,461	65,750
Exercise of ESOS	(1,440)	(5,654)	-	-
Shares transferred to HLIA	(751)	(4,310)	-	-
At 30 June	12,270	55,786	14,461	65,750

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

52 EQUITY COMPENSATION BENEFITS (continued)

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

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

30 June 2011 Grant date	Performance measurement period	As at 30-Jun-10	Granted	Cancelled/ Ceased	Exercised	As at 30-Jun-11
16-Mar-07	July 2006 – June 2009*	720,000	-	-	(720,000)	-
16-Mar-07	July 2006 – June 2009^	720,000	-	-	(720,000)	-
16-Mar-07	July 2006 – June 2009#	360,000	-	-	-	360,000
16-Mar-07	July 2006 – June 2011*	3,360,000	200,000	(200,000)	-	3,360,000
16-Mar-07	July 2006 – June 2011^	3,360,000	200,000	(200,000)	-	3,360,000
16-Mar-07	July 2006 – June 2011#	1,680,000	100,000	(100,000)	-	1,680,000
		10,200,000	500,000	(500,000)	(1,440,000)	8,760,000

30 June 2010 Grant date	Performance measurement period	As at 30-Jun-09	Granted	Cancelled/ Ceased	Exercised	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

* 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

Out of the outstanding options, 360,000 units (2010:1,800,000) 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 2011 had an exercise price of RM5.92 (2010: RM5.92) and a weighted average remaining contractual life (from grant date to the end of exercise period) of 5 years.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

53 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) On 22 April 2010, Hong Leong Capital Berhad ("HLCB"), a subsidiary of HLFG, 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 would 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 ("Integration") with effect from 31 July 2010 (or such other date as may be agreed by the parties hereto) ("Transfer Date").

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

The Integration was 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 through the Securities Commission("SC"); and
(iii) the approval of the SC for the application for a Capital Market Service licence to carry on the business of trading futures contracts by HLIB.

The SC had, vide its letter dated 18 June 2010, informed that the transfer of HLG Futures's 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, High Court has granted the aproval for the Integration.

The Integration was completed on 2 October 2010.

(b) On 2 July 2010, Hong Leong Bank Berhad ("HLB"), a subsidiary of HLFG, announced that it 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 was converted into a public company on 12 July 2010 and is now known as Prominic Berhad.

Prominic's 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.

(c) On 10 August 2010, HLB completed its inaugural Ringgit issuance of RM700 million Tier 2 Subordinated Debt ("Sub Debt"). The Sub Debt forms 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.

The Sub Debt has a maturity of 10 years. Subject to Bank Negara Malaysia's ("BNM") 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.

(d) HLA Holdings Sdn Bhd ("HLAH"), which is a wholly-owned subsidiary of HLFG and Hong Leong Assurance Bhd ("HLA"), which is a wholly-owned subsidiary of HLAH, had on 18 June 2010 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 ("Strategic Partnership").

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

53 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (continued)

(d) On 1 October 2010, the Strategic Partnership was completed as follows:

(i) The 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, satisfied via the issuance of such number of new shares that represented 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 Non-Life Business Merger, HLAH disposed 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 ("Life Equity Divestment").

Upon completion of the Strategic Partnership, the equity interest of HLAH in HLA was reduced from 100% to 70%. At the same time, HLA transferred its 30% stake in MSIM to HLAH whereupon MSIM became an associated company of HLAH.

(e) On 17 March 2011, HLB completed its inaugural US dollar Senior Unsecured Bonds issuance of USD300 million ("Senior Bonds").

The Senior Bonds will have a tenure of five years, maturing on March 17, 2016. The Senior Bonds will pay a coupon of 3.75% p.a. which is equivalent to a yield to investors of 3.803% (5-year US Treasury + 165bps).

The proceeds from the issuance of the Senior Bonds will be used for working capital and general banking purposes. The Senior Bonds is listed in the Singapore Exchange.

(f) HLAH had on 1 April 2011 entered into share sale agreements with Tokio Marine & Nichido Fire Insurance Co., Ltd ("TMNFI") and Mitsui Sumitomo Insurance Company, Limited ("MSIJ"), respectively, for the following:-

(i) Acquisition by HLAH of 35% equity interest in Hong Leong MSIG Takaful Berhad ("HLMT") (formerly known as Hong Leong Tokio Marine Takaful Berhad) from TMNFI for a cash consideration of RM33,642,700 ("Acquisition"); and

(ii) Disposal by HLAH of 35% equity interest in HLMT to MSIJ for a cash consideration of RM33,642,700 ("Disposal").

Upon completion of the Acquisition and Disposal on 1 April 2011, the 35,000,000 ordinary shares of RM1.00 each, representing 35% equity interest in HLMT was transferred from TMNFI to MSIJ.

(g) On 5 May 2011, HLB completed its issuances of Sub Debt of RM1.0 billion and Non-Innovative Tier 1 Stapled Securities ("NIT-1 Stapled Securities") of RM1.4 billion respectively.

The Sub Debt is rated AA2 while the NIT-1 Stapled Securities is rated AA3 by RAM Rating Services Berhad.

The Sub Debt, with a maturity of 10 years and callable at the end of year 5 and on each subsequent coupon payment date, pays a semi annual coupon of 4.35% p.a., while the NIT-1 Stapled Securities, which is perpetual in nature and callable at the end of year 5 and on each coupon payment date, pays a semi annual coupon of 5.05% p.a. The call options on both the Sub Debt and the NIT-1 Stapled Securities shall be subject to the approval of Bank Negara Malaysia ("BNM").

(h) On 6 May 2011, the acquisition by HLB of the assets and liabilities of EON Capital Berhad for RM5.06 billion was completed and EON Bank Berhad ("EBB") and its subsidiaries including EONCAP Islamic Bank Bhd ("EIBB") and MIMB Investment Bank Bhd ("MIMB") became part of HLB Group.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

53 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (continued)

(i) On 10 May 2011, HLFG announced that HLFG, is providing a Tier 2 Capital Cumulative Subordinated Loan Facility for the amount of up to RM2.3 billion (the "Facility") to HLB and HLB had on 6 May 2011 drawn down on the full facility amount of RM2.3 billion.

The Facility is a bridging loan to assist HLB with its Risk Weighted Capital Adequacy Ratio pending the completion of a proposed rights issue exercise to be undertaken by HLB ("Proposed HLB Rights Issue").

The tenure of the Facility shall be 99 years from the date of the drawdown. HLB may, at any time, at its option and subject to the written approval of BNM, prepay the Facility in part or in whole provided that it has paid in full all accrued interest due on such prepayment date. However, upon completion of, inter alia, the Proposed HLB Rights Issue, HLB shall prepay the Facility in whole together with all accrued interest due.

Interest on the Facility shall be at the rate of 6 month Kuala Lumpur Interbank Offered Rate (KLIBOR) plus spread of 70 basis points per annum, payable quarterly in arrears. HLB may, in certain circumstances, defer payment of interest. However, any such deferral of interest shall be cumulative and payable on the next interest payment date on which interest is not deferred. All deferred interest amount shall be payable not later than the date the Facility is fully repaid or prepaid, as the case may be.

The approval of BNM for the Facility has been obtained. The Facility is not subject to the approval of the shareholders of HLB.

(j) On 10 May 2011, CIMB Investment Bank Berhad ("CIMB"), on behalf of HLB announced that HLB proposes to increase the size of the renounceable rights issue by RM1,000 million from up to RM1,600 million (as approved by HLB's shareholders at the adjourned extraordinary general meeting ("EGM") on 4 October 2010) to up to RM2,600 million ("Proposed Enlarged Rights Issue").

The Proposed Enlarged Rights Issue will allow HLB to raise an aggregate gross proceeds of up to RM2,600 million to further strengthen its capital base and for working capital purposes. With the stronger capital base, HLB will be in a better position to take advantage of growth and business opportunities to extend its market share and profitability.

The entitlement basis for the Proposed Enlarged Rights Issue and the issue price for the new ordinary shares of RM1.00 each in HLB to be issued under the Proposed Enlarged Rights Issue ("Rights Shares") will only be fixed after all the approvals in respect of the Proposed Enlarged Rights Issue have been obtained. This will shorten the time gap between the price fixing date and the offering period and provide the Board of Directors of HLB with flexibility to manage the parameters of the Proposed Enlarged Rights Issue such that the objective of raising the intended gross proceeds of up to RM2,600 million can be met.

The Proposed Enlarged Rights Issue is subject to the following approvals being obtained for the additional RM1,000 million rights issue:

(i) Bank Negara Malaysia/Minister of Finance;

(ii) shareholders of HLB at an EGM to be convened;

(iii) Bursa Malaysia Securities Berhad for the listing of and quotation for the Rights Shares to be issued; and

(iv) any other relevant authorities and/or parties, where required.

On 28 June 2011, CIMB announced on behalf of HLB that Bursa Malaysia Securities Berhad ("Bursa Securities") had, via its letter dated 27 June 2011, granted its approval for the listing of and quotation for such number of Rights Shares to be issued under the Proposed Enlarged Rights Issue on the Main Market of Bursa Securities.

In addition, CIMB had announced on behalf of HLB that Bursa Securities had, via its letter dated 15 June 2011, granted its approval for the extension of time to complete the Original Rights Issue by 6 months, from 26 May 2011 to 26 November 2011.

(k) On 17 June 2011, HLB announced that the High Court has granted a Vesting Order transferring the entire business including all assets and liabilities of EBB to HLB with effect from 1 July 2011.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

54 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

(a) On 1 July 2011, HLB announced that the whole of the business including all assets and liabilities of EBB had been vested to HLB effective 1 July 2011 ("Vesting").

Following the Vesting, EBB has surrendered its banking licence to Bank Negara Malaysia ("BNM") on 1 July 2011 and has ceased operations.

On 1 July 2011, all of the direct subsidiaries of EBB including EIBB and MIMB became direct subsidiaries of HLB.

On 15 July 2011, EBB changed its name to Promino Berhad and subsequently was converted into a private limited company on 18 July 2011 and is now known as Promino Sdn Bhd.

(b) Pursuant to an internal reorganisation exercise, HLB had, on 1 July 2011, entered into a share sale agreement ("SSA") with HLB Principal Investments (L) Limited ("HLBPI"), a wholly-owned subsidiary of HLB, for the transfer by HLB of its entire equity interest in EBB to HLBPI.

The SSA was completed on 1 July 2011 immediately following the vesting of business from EBB to HLB and the surrender of EBB's banking licence to BNM.

Upon completion of the internal reorganisation exercise, EBB became a wholly-owned subsidiary of HLBPI, which is in turn a wholly-owned subsidiary of HLB.

(c) On 4 July 2011, CIMB, on behalf of HLB announced that BNM had through its letter dated 27 June 2011, granted its approval for the Proposed Enlarged Rights Issue.

(d) On 21 July 2011, CIMB, on behalf of HLB announced that the shareholders of HLB had, at the EGM held on 21 July 2011, approved the Proposed Enlarged Rights Issue.

(e) On 4 August 2011, HLFG announced that the SC had, vide its letter dated 29 July 2011 and received by HLFG on 2 August 2011, approved a proposed master debt issuance programme of up to RM1,800 million in nominal value (the "Master Debt Programme").

The Master Debt Programme comprises the following:

(i) a commercial papers ("CPs") programme of up to RM1,800 million in nominal value (the "CP Programme"); and

(ii) a medium term notes ("MTNs") programme of up to RM1,800 million in nominal value (the "MTN Programme").

The CP Programme shall have a tenure of seven (7) years from the date of first issuance of the CPs. The MTN Programme shall have a tenure of twenty (20) years from the date of first issuance of the MTNs.

Proceeds raised from the Master Debt Programme will be utilised to repay borrowings, for general investments and/or working capital purposes.

HLIB is the Principal Adviser and Lead Arranger of the Master Debt Programme.

(f) Pursuant to section 168(3) of the Companies Act 1965, the Companies Commission of Malaysia had on 10 August 2011, granted its approval for Hong Leong Bank Vietnam Limited ("HLBVN"), a wholly-owned subsidiary of HLB incorporated in Vietnam, to have a different financial year end from its holding company. The financial year end of HLBVN is 31 December 2011 as required under the Law on Credit Institutions of Vietnam.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

54 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR (continued)

(g) On 6 September 2011, CIMB, on behalf of HLB, announced that the issue price for the Rights Shares had been fixed at RM8.65 per Rights Share at an entitlement basis of 1 Rights Share for every 5 existing HLB Shares held by HLB's entitled shareholders as at 5.00 p.m. on 21 September 2011 ("Entitlement Date")("Entitled Shareholders").

The issue price of RM8.65 per Rights Share represents a discount of 30.3% to the 5-day volume-weighted average market price of HLB Shares up to 5 September 2011 of RM12.41 ("5-day VWAMP") and 26.6% to the theoretical ex-rights price of HLB Shares of RM11.78 (based on the 5-day VWAMP).

The Rights Issue will result in the issuance of up to 299.8 million Rights Shares and will raise gross proceeds of up to RM2,593.3 million. As the Rights Issue will be undertaken on a minimum subscription basis based on HLFG (a major shareholder of HLB) full entitlement to the Rights Shares, in the case where only HLFG subscribes for its full entitlement to the Rights Shares, the Rights Issue will result in the issuance of approximately 190.4 million Rights Shares and will raise gross proceeds of approximately RM1,647.0 million.

55 CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

Changes in accounting policies

During the financial year, the Group changed the following accounting policies upon adoption of the new accounting standards, amendments and improvements to published standards and interpretations:-

(a) Leasehold land (FRS 117)
(b) Financial instruments (FRS 139)
(c) Insurance contract (FRS 4)

Refer to summary of significant accounting policies for the details of the changes in accounting policies.

Prior year adjustments

(d) During the financial year, HLB has adjusted differences in respect of revaluation of foreign currency balances that the Bank noted, arising from a previous major enhancement to the general ledger system from a single currency to a multi currency general ledger in the financial year ended 30 June 2010. The said adjusted differences were a gain of RM47,649,939 (2010: loss of RM72,627,499) to retained profits.

(e) HLB has also corrected the accounting for certain derivative financial instruments resulting in a gain of RM40,650,000 to retained profits.

Restatement of Comparatives

(f) The Group have reclassified derivative assets and derivative liabilities separately on the Statement of Financial Position, previously classified under other receivables and other payables and liabilities respectively. There was no impact to the financial performance and ratios in relation to the financial year ended 30 June 2010.

The impact of the above on the financial statements of the Group are set out in the next pages.

NOTES
TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

55 CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

The impact of changes in accounting policies and prior year adjustments on the financial statements of the Group:

	The Group								
	As at 30 June 2010							As at 1 July 2010	
		Effects from prior year adjustments/changes in accounting policies							
		(e)	(d)	(a)	(c)	(f)		(b)	
	As previously reported RM'000	Accounting on certain derivative financial instruments RM'000	Revaluation of foreign currency balances RM'000	FRS 117 RM'000	FRS 4 RM'000	Restatement of comparatives RM'000	As restated RM'000	FRS 139 RM'000	As adjusted RM'000
As at 30 June 2010									
Statement of financial position									
Cash and short term funds	17,282,508	-	47,650	-	-	-	17,330,158	-	17,330,158
Financial investments available-for-sale	8,096,680	-	-	-	-	-	8,096,680	132,546	8,229,226
Financial investments held-to-maturity	6,866,864	-	-	-	-	-	6,866,864	(27,092)	6,839,772
Derivative financial assets	-	-	-	-	-	1,041,013	1,041,013	-	1,041,013
Loans, advances and financing	38,522,242	-	-	-	-	-	38,522,242	82,082	38,604,324
Other receivables	2,172,815	-	-	-	-	(1,041,013)	1,131,802	(72,778)	1,059,024
Prepaid lease payments	17,260	-	-	(17,260)	-	-	-	-	-
Property and equipment	641,659	-	-	17,260	-	-	658,919	-	658,919
Deferred tax assets	176,138	-	-	-	-	-	176,138	(27,172)	148,966
Non-current assets held for sale	346,939	-	-	-	230,605	-	577,544	-	577,544
Derivative financial liabilities	-	-	-	-	-	1,058,951	1,058,951	-	1,058,951
Payables and other liabilities	4,942,138	(54,200)	-	-	-	(1,058,951)	3,828,987	-	3,828,987
Provision for taxation	105,306	13,550	-	-	-	-	118,856	2,236	121,092
Liabilities directly associated with non-current assets held for sale	320,102	-	-	-	230,605	-	550,707	-	550,707
Total assets	93,942,368	-	47,650	-	230,605	-	94,220,623	87,586	94,308,209
Total liabilities	86,513,538	(40,650)	-	-	230,605	-	86,703,493	2,236	86,705,729
Total equity	7,428,830	40,650	47,650	-	-	-	7,517,130	85,350	7,602,480
Total equity and liabilities	93,942,368	-	47,650	-	230,605	-	94,220,623	87,586	94,308,209
Statement of changes in equity									
Retained profits	2,703,870	26,882	31,511	-	-	-	2,762,263	28,860	2,791,123
Non-controlling interest	2,268,279	13,768	16,139	-	-	-	2,298,186	4,186	2,302,372
Fair value reserve	17,854	-	-	-	-	-	17,854	52,304	70,158

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

55 CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

The impact of changes in accounting policies and prior year adjustments on the financial statements of the Group: (continued)

	The Group				
		Effects from prior year adjustments/changes in accounting policies			
		(e)	(d)	(a)	
	As previously reported RM'000	Accounting on certain derivative financial instruments RM'000	Revaluation of foreign currency balances RM'000	FRS 117 RM'000	As restated RM'000
For the financial year ended 30 June 2010					
Statement of income					
Non-interest income	851,577	28,150	-	-	879,727
Profit before taxation and zakat	1,422,688	28,150	-	-	1,450,838
Taxation and zakat	(237,379)	(7,038)	-	-	(244,417)
Profit after taxation and zakat	1,185,309	21,112	-	-	1,206,421
Attributable to:					
Owners of the parent	846,848	13,999	-	-	860,847
Non-controlling interest	338,461	7,113	-	-	345,574
Earnings per share for profit attributable to ordinary equity holders of the Group (sen) - basic/fully diluted	81.8	1.3	-	-	83.1
As at 30 June 2009					
Statement of financial position					
Cash and short term funds	19,500,176	-	47,650	-	19,547,826
Property and equipment	602,362	-	-	10,123	612,485
Prepaid lease payments	10,123	-	-	(10,123)	-
Payables and other liabilities	3,268,607	(26,050)	-	-	3,242,557
Provision for taxation	73,704	6,512	-	-	80,216
Total assets	86,409,123	-	47,650	-	86,456,773
Total liabilities	79,663,170	(19,538)	-	-	79,643,632
Total equity	6,745,953	19,538	47,650	-	6,813,141
Total equity and liabilities	86,409,123	-	47,650	-	86,456,773
Statement of changes in equity					
Retained profits	2,098,265	12,920	31,474	-	2,142,659
Non-controlling interest	2,256,905	6,618	16,176	-	2,279,699

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

55 CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

The impact of changes in accounting policies and prior year adjustments on the financial statements of the Group: (continued)

The Group	Increase/(decrease) to balance as at 30 June 2011		
	FRS 117 RM'000	FRS 139 RM'000	Total RM'000
Assets			
Cash and short term funds	-	274	274
Deposits and placements with banks and other financial institutions	-	31,455	31,455
Bills and acceptances payable	-	279	279
Financial assets held for trading	-	8,138	8,138
Financial investments available-for-sale	-	181,736	181,736
Financial investments held-to-maturity	-	(69,943)	(69,943)
Loans, advances and financing	-	103,163	103,163
Other assets	-	(122,217)	(122,217)
Prepaid lease payments	(9,924)	-	(9,924)
Property and equipment	9,924	-	9,924
Deferred tax assets	-	(3,541)	(3,541)
Liabilities			
Deposits from customers	-	193,901	193,901
Deposits and placements of banks and other financial institutions	-	4,065	4,065
Other liabilities	-	(252,892)	(252,892)
Borrowings	-	75	75
Senior bonds	-	9,822	9,822
Tier 2 subordinated bonds	-	19,908	19,908
Non-innovative Tier 1 stapled securites	-	11,041	11,041
Equity			
Retained profits	-	(2,822)	(2,822)
Fair value reserves	-	13,443	13,443

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

55 CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

The impact of changes in accounting policies and prior year adjustments on the financial statements of the Group: (continued)

The Group	Increase/ (decrease) for the financial year ended 30 June 2011
	RM'000
Statement of Income	
Interest income	(63,152)
Non-interest income	(8)
Other operating expenses	(34,468)
Profit before taxation	(28,692)
Taxation	(7,172)
Net profit for the financial year	(21,521)
Earnings per share from profit attributable to ordinary equity holders of the Group (sen)	
- Basic	(0.02)
- Diluted	(0.02)
Other comprehensive income	
Fair value gains on financial investments available-for-sale, net of tax	13,443
Total comprehensive income for the financial year, net of tax	(8,078)

The effects of the adoption of FRS 139 on loan impairment for the current financial year is not disclosed by the Group as it is not practicable to do so.

56 BUSINESS COMBINATIONS

Effective 6 May 2011, EON Bank Group, comprising of EON Bank Berhad, EONCAP Islamic Bank Berhad and MIMB Investment Bank Berhad and related subsidiaries became wholly-owned subsidiaries of HLB Group, following the acquisition by HLB of EON Capital Berhad's ("ECB") assets and liabilities.

The acquisition brings opportunities for the combined Group to reassert its market positioning, expand its business reach, serve its customers and community, achieve greater economies of scale and efficiency, and increase our talent capacity for its domestic and regional aspirations. The combined Group will leverage our collective strengths for value creation, growth and profitability.

HLB Group's acquisition of the assets and liabilities of ECB was accounted for using the purchase method of accounting in accordance with FRS 3(revised).

	The Group RM'000
Acquisition-related costs (included in administrative expenses in the consolidated statement of income for the year ended 30 June 2011)	78,071

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

56 BUSINESS COMBINATIONS (continued)

The assets and liabilities arising from the acquisition of ECB at Group level are as follows:

Recognised amounts of identifiable assets acquired and liabilities assumed

	Note	Provisional fair value RM'000
Cash and short term funds		9,789,918
Deposits and placements with banks and other financial institutions		734,442
Financial assets held for trading		522,937
Financial investments available-for-sale		3,659,283
Financial investments held-to-maturity		149,985
Loans, advances and financing		37,592,224
Other assets		423,730
Deferred tax assets	15	453,999
Statutory deposits with Bank Negara Malaysia		689,667
Property and equipment	16	273,050
Intangible assets	19	43,907
Deposits from customers		(41,990,573)
Deposits and placements from banks and other financial institutions		(5,011,594)
Bills and acceptance payable		(405,257)
Other liabilities		(1,017,987)
Subordinated bonds		(1,156,879)
Innovative Tier 1 Capital securities		(495,496)
Dividend payable		(311,944)
Total identifiable net assets		3,943,412
Provisional goodwill	18	1,117,012
		5,060,424

	RM'000
Consideration	
Cash	5,060,424
Total consideration transferred	5,060,424
Cash inflow on acquisition	4,729,494

The provisional fair value of the assets and liabilities are based on ECB Group's carrying amount as at 6 May 2011. Therefore, the goodwill on acquisition was determined provisionally.

The total income included in the consolidated statement of income since 6 May 2011 contributed by EON Bank Group was RM257 million. EON Bank Group also contributed a net profit of RM72 million over the same period.

Had EON Bank Group been consolidated from 1 July 2010, the consolidated statement of income would show total income of RM4,101 million and net profit of RM2,476 million.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

57 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	The Group		
	Before tax RM'000	Tax benefits RM'000	Net of tax amount RM'000
30 June 2011			
Financial investments available-for-sale			
- net fair value gain/(loss) and amount transfer to statement of income	**32,159**	**(6,432)**	**25,727**
30 June 2010			
Financial investments available-for-sale			
- net fair value gain/(loss) and amount transfer to statement of income	65,131	(13,026)	52,105

58 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 review their loan portfolios to assess impairment at least on a quarterly basis. It is the policy of the Group to establish, through charges against profit, individual and collective assessment impairment allowances in respect of estimated and inherent credit losses in their portfolio.

In determining individual assessment impairment allowances for loans/financing above the set threshold, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral value. Whilst, management's judgement is guided by the relevant BNM guidelines, judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flow to service debt obligations.

(b) Life policyholders' fund

Material judgement is required in determining the liabilities and in the choice of assumptions.

Assumptions in use are based on the past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals.

Based on the actuarial valuation of the fund made up to 30 June 2011, the Actuary was satisfied that the assets available in the Life fund are sufficient to meet its long term liabilities to policyholders.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

58 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(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.

59 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 16 August 2011.

NOTES
TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

60 REALISED AND UNREALISED PROFIT

On 25 March 2010, Bursa Malaysia issued a directive that requires all listed issuer to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period into realised and unrealised profits or losses.

The breakdown of realised and unrealised profit is derived based on the Guidance on Special Note No.1 *Determination of Realised and Unrealised Profit or Losses in the Context of Disclosure Persuant to Bursa Malaysia Securities Berhad Listing Requirement*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The unrealised retained profits of the Group and Company as disclosed below excludes translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these translation gains and losses are incurred in the ordinary course of business of the Group and are deemed realised.

The breakdown of the retained profits of the Group and Company are as follows:

	The Group	The Company
2011	**RM'000**	**RM'000**
Total retained profits of the Group and subsidiaries		
- Realised	4,767,949	1,324,577
- Unrealised	1,051,802	2,342
Total share of retained profits from associated companies		
- Realised	474,627	-
- Unrealised	-	-
Total share of retained profits from jointly controlled entity		
- Realised	(1,459)	-
- Unrealised	-	-
	6,292,919	1,326,919
Less : Consolidated adjustment	(1,383,216)	-
Total Group retained profits as per consolidated financial statements	4,909,703	1,326,919

STATEMENT BY DIRECTORS

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

We, Choong Yee How and Yvonne Chia, being 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 180 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 2011 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
20 September 2011

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 180 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 20 September 2011) **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 on pages 48 to 179, which comprise the statements of financial position as at 30 June 2011 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows 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 Notes 1 to 59.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 entity's preparation of financial statements that give a true and fair view 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 entity'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 2011 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 REPORTING RESPONSIBILITIES

The supplementary information set out in Note 60 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

ONG CHING CHUAN
(No. 2907/11/11 (J))
Chartered Accountant

Kuala Lumpur
20 September 2011

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-second 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 Friday, 28 October 2011 at 10.30 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 2011.

2. To approve the payment of Directors' fees of RM382,795 for the financial year ended 30 June 2011 (2010: RM347,616), to be divided amongst the Directors in such manner as the Directors may determine. ***(Resolution 1)***

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

   (a) YBhg Tan Sri Quek Leng Chan ***(Resolution 2)***
   (b) Mr Quek Kon Sean ***(Resolution 3)***
   (c) Ms Lim Lean See ***(Resolution 4)***
   (d) Mr Saw Kok Wei ***(Resolution 5)***

4. To pass the following motion as an Ordinary Resolution:-

   "THAT YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting." ***(Resolution 6)***

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. ***(Resolution 7)***

SPECIAL BUSINESS

As 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 8)***

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 Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(A) and (C) of the Company's Circular to Shareholders dated 6 October 2011 ("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 9)***

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 Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(B) of the Company's Circular to Shareholders dated 6 October 2011 with Tower REIT provided that such transactions are undertaken in the ordinary course of business, on arm's length basis and on commercial terms which are not more favourable to the related party than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution.

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is the earlier." ***(Resolution 10)***

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

By Order of the Board

CHRISTINE MOH SUAT MOI
(MAICSA No. 7005095)
Secretary

Kuala Lumpur
6 October 2011

NOTICE OF ANNUAL GENERAL MEETING
(continued)

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.

EXPLANATORY NOTES ON SPECIAL BUSINESS

1. **Ordinary Resolution 8 on Authority to Directors to Issue Shares**

   The proposed Ordinary Resolution, if passed, will give a renewed mandate to the Directors of the Company to issue ordinary shares of the Company from time to time provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being ("Renewed Mandate"). The Renewed Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting ("AGM") of the Company.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last AGM held on 26 October 2010 and which will lapse at the conclusion of the Forty-second 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.

2. **Ordinary Resolutions 9 and 10 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 Hong Leong Capital Berhad (formerly known as 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 6 October 2011 which is dispatched together with the Company's 2011 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-second 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 2 SEPTEMBER 2011

Authorised share capital	:	RM2,000,000,000
Issued & paid-up capital	:	RM1,052,767,789
Class of shares	:	Ordinary shares of RM1.00 each
Voting rights		
• on show of hands	:	1 vote
• on a poll	:	1 vote for each share held

Distribution Schedule of Shareholders As At 2 September 2011

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	158	4.11	5,487	0.00
100 – 1,000	753	19.61	618,440	0.06
1,001 – 10,000	1,914	49.83	8,299,574	0.79
10,001 – 100,000	796	20.72	25,357,458	2.41
100,001 – less than 5% of issued shares	217	5.65	373,039,988	35.43
5% and above of issued shares	3	0.08	645,446,842	61.31
	3,841	100.00	1,052,767,789	100.00

List of Thirty Largest Shareholders As At 2 September 2011

Name of Shareholders	No. of Shares	%
1. Assets Nominees (Tempatan) Sdn Bhd - *Hong Leong Company (Malaysia) Berhad*	322,366,896	30.62
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*	56,000,000	5.32
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
8. HSBC Nominees (Asing) Sdn Bhd - *Exempt AN for The Bank Of Nova Scotia Asia Limited*	18,711,000	1.78

OTHER INFORMATION
(continued)

2. ANALYSIS OF SHAREHOLDINGS AS AT 2 SEPTEMBER 2011 (continued)

List of Thirty Largest Shareholders As At 2 September 2011 (continued)

Name of Shareholders	No. of Shares	%
9. Scotia Nominees (Tempatan) Sdn Bhd *- Hong Leong Company (Malaysia) Bhd*	16,500,000	1.57
10. Citigroup Nominees (Tempatan) Sdn Bhd *- Employees Provident Fund Board*	14,216,199	1.35
11. AmTrustee Berhad *- Exempt AN for Hong Leong Financial Group Berhad (HLFG-ESOS)*	13,021,408	1.24
12. AIBB Nominees (Tempatan) Sdn Bhd *- Chua Ma Yu*	10,734,000	1.02
13. Public Nominees (Tempatan) Sdn Bhd *- Hong Leong Company (Malaysia) Berhad*	10,406,458	0.99
14. Cartaban Nominees (Asing) Sdn Bhd *- Exempt AN for Barclays Capital Securities Ltd*	8,485,600	0.81
15. Assets Nominees (Tempatan) Sdn Bhd *- Soft Portfolio Sdn Bhd*	6,057,000	0.58
16. HSBC Nominees (Asing) Sdn Bhd *- The Bank Of Nova Scotia*	6,020,200	0.57
17. Citigroup Nominees (Asing) Sdn Bhd *- Exempt AN for UBS AG Singapore (Foreign)*	5,976,582	0.57
18. Valuecap Sdn Bhd	5,942,600	0.56
19. Khalid Ahmad Bin Sulaiman	5,544,000	0.53
20. YBhg Tan Sri Quek Leng Chan	4,989,600	0.47
21. Chua Holdings Sdn Bhd	4,824,549	0.46
22. Hong Bee Hardware Company, Sdn. Berhad	4,523,400	0.43
23. RHB Capital Nominees (Tempatan) Sdn Bhd *- Poh Yang Hong*	4,004,800	0.38
24. Cartaban Nominees (Asing) Sdn Bhd *- Exempt AN for State Street Bank & Trust Company*	3,882,733	0.37
25. Amsec Nominees (Tempatan) Sdn Bhd *- Ambank (M) Berhad*	3,673,400	0.35
26. HSBC Nominees (Asing) Sdn Bhd *- Vanguard Emerging Markets Stock Index Fund*	3,310,300	0.31
27. RHB Capital Nominees (Tempatan) Sdn Bhd *- Poh Soon Sim*	3,000,000	0.29
28. AmTrustee Berhad *- Exempt AN for Hong Leong Financial Group Berhad (HLA-ESOS)*	2,768,992	0.26
29. HSBC Nominees (Asing) Sdn Bhd *- Exempt AN for The Bank Of New York Mellon*	2,430,524	0.23
30. Kheng Lim Holdings Sdn Bhd	2,326,130	0.22
	948,296,317	90.08

OTHER INFORMATION
(continued)

2. ANALYSIS OF SHAREHOLDINGS AS AT 2 SEPTEMBER 2011 (continued)

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 2 September 2011 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(ies)
[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 Guoco Assets Sdn Bhd

OTHER INFORMATION
(continued)

3. DIRECTORS' INTERESTS AS AT 2 SEPTEMBER 2011

Subsequent to the financial year end, there is no change, as at 2 September 2011, 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 39 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	1,052,000	0.07
	5,128,000*	-
Indirect Interest		
YBhg Tan Sri Quek Leng Chan in:		
GuocoLand Limited("GLL")	1,059,796*	0.08**
GuocoLeisure Limited	919,572,425	67.22
The Rank Group Plc	291,001,931	74.50
Dr Poh Soon Sim in:		
Guoco Group Limited[N1]	-	-

Notes:

** Based on the enlarged share capital of GLL assuming full conversion of S$352,200,000 nominal value of GLL's convertible bonds as at 2 September 2011.

N1 Shares held pursuant to Section 134(12)(c) of the Companies Act, 1965

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011

	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	77	7,484	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	12	2,527	26/06/1997
3	42, Jalan Pending 93450 Kuching Sarawak	Leasehold - 999 years (31/12/2779)	Branch premises	4,425	29	2,012	27/12/1983

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
4	133, 135 & 137 Jalan Kampong Nyabor 96000 Sibu Sarawak	Freehold	Branch premises	4,871	19	3,073	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	20	1,496	29/06/1996
7	69, 70 & 71 Jalan Dato' Bandar Tunggal 70000 Seremban Negri Sembilan Darul Khusus	Freehold	Branch premises	6,000	Pre-war	1,329	27/12/1994
8	26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	25	540	30/12/1986
9	120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold - 99 years (22/8/2063)	Branch premises	3,355	45	663	31/05/1990
10	100, Jalan Gurney 72100 Bahau Negeri Sembilan Darul Khusus	Freehold	Branch premises	5,107	25	2,408	25/06/1992
11	12, 14 & 16 Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	20	3,747	25/06/1992
12	6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold - 60 years (31/12/2029)	Branch premises	2,240	42	91	18/10/1969
13	Vacant land at Jalan Peace Kuching, Lot 2081 Section 64 KTLD, Sarawak	Leasehold - 99 years (31/12/2037)	Vacant land	22,172	n/a	33	31/12/1967

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
14	63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	16	3,824	28/04/1997
15	24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	15	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	24	1,171	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	17	210	26/06/1997
18	Lot 3073 & 3074 Jalan Abang Galau 97000 Bintulu Sarawak	Leasehold - 60 years (12/2/2056)	Branch premises	2,582	14	1,194	26/06/1997
19	Lot 34, Putra Industrial Park 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	15	2,593	26/01/1995
20	1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold - 55 years (28/2/2028)	Vacant	10,619	36	46	30/06/1977
21	9A & 9B, Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	18	884	01/01/1994
22	45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	33	2,113	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	16	504	26/12/1995

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
24	55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	32	1,113	01/10/1984
25	27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold - 79 years (26/2/2078)	Branch premises	4,694	16	278	24/11/1995
26	75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	14	611	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	21	1,226	01/06/1994
28	36, Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur	Freehold	Branch premises	2,700	24	206	30/11/1984
29	19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold - 99 years (8/3/2081)	Branch premises	5,859	29	356	29/11/1985
30	55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	31	321	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	31	480	31/07/1988
32	161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	2,454	15	2,534	14/02/1996
33	8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	18	445	22/10/1977
34	109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	23	210	01/09/1988

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
35	31 & 32, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	8,932	19	504	05/03/1996
36	103, Jalan Rahmat 83000 Batu Pahat Johor Darul Takzim	Freehold	Vacant	12,222	37	621	30/06/1977
37	26 & 28, Jalan Mersing 80050 Johor Bahru Johor Darul Takzim	Freehold	Vacant	7,040	27	1,320	22/05/1995
38	21, Jalan Tun Razak 27600 Raub Pahang Darul Makmur	Freehold	Branch premises	4,480	25	420	26/06/1986
39	1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	43	37	30/06/1977
40	36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold - 99 years (24/11/2039)	Branch premises	1,728	71	135	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	12	1,908	18/12/1999
42	2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	12	3,618	18/12/1999
43	Lots 568-G-17 & 568-1-17 Kompleks Mutiara 3 1/2 Mile Jalan Ipoh 51200 Kuala Lumpur	Freehold	Self service terminal (ATM area)	4,945	12	3,330	23/11/1999
44	Plot No 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	12	556	23/11/1999

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
45	1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	7,870	11	1,865	23/11/1999
46	Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold - 99 years (24/2/2084)	Branch premises	5,988	12	1,449	31/05/1991
47	No. 1 & 2, Jalan Raya 09800 Serdang Kedah Darul Aman	Freehold	Branch premises	5,840	10	423	20/09/2000
48	133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	10	335	13/12/2000
49	65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Vacant	2,223	15	4,984	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	18	522	26/11/1993
51	64, Jalan Tun Mustapha 87007 Labuan	Leasehold - 999 years (31/12/2775)	Branch premises	1,370	20	631	30/05/1991
52	159, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	6	2,596	25/11/2005
53	163, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	6	2,663	25/10/2005
54	1, Jalan Ambong Kiri Satu (Jalan 7) Kepong Baru 52100 Kuala Lumpur	Freehold	Vacant	13,300	5	4,033	18/10/2005
55	114 & 116, Jalan Cerdas Taman Connaught 56000 Kuala Lumpur	Leasehold - 99 years (16/10/2078)	Branch premises	12,200	5	4,015	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	5	2,767	06/07/2006

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
57	No. 2, Jalan Puteri 2/4 Bandar Puteri Puchong 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	11,850	4	5,303	26/06/2007
58	Tower A, PJ City Development 46100 Petaling Jaya Selangor	Leasehold - 99 years (14/08/2094)	Branch premises	194,489	3	83,203	21/07/2008
59	OUG No.2, Lorong 2/137C Off Jalan Kelang Lama 58200, Kuala Lumpur	Leasehold - 99 years (year 2088)	Branch premises	17,300	1	5,662	01/04/2011
60	KEP Lot No 77C & 77D Lot No.58529, Jalan Kepong 52100 Kuala Lumpur	Leasehold - 99 years (07/01/2101)	Branch premises	30,613	1	9,476	01/05/2011
61	No. 122, Kapit By-Pass 96807 Kapit Sarawak	Leasehold - 60 years (29/04/2045)	4 storey building	1,200	18	185	30/04/1985
62	No. 12A, Block B, Level 2, Fraser's Hill Condominium 49000 Bukit Fraser's Pahang Darul Makmur	Leasehold - 99 years (23/05/2082)	1 unit apartment	1,792	24	160	24/05/1983
63	No. 288, Jalan Raja Laut 50350 Kuala Lumpur Wilayah Persekutuan	Freehold	Ex EBB Head office	839,574	18	129,902	31/01/2005
64	No. 9, Jalan Cheng Lock 50000 Kuala Lumpur Wilayah Persekutuan	Freehold	Branch premises	2,199	38	339	18/09/1972
65	No. 3, Jalan Bandar Satu Pusat Bandar Puchong 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	4,687	16	2,064	04/03/1997
66	No. 1, Jalan SS15/4E City Centre 47500 Subang Jaya Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	3,261	29	439	12/02/1991

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
67	No. 32 & 34, Jalan 21/19 Sea Park 46300 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	3,080	48	2,249	19/08/1997
68	No. 1, Jalan Goh Hock Huat 41400 Klang Selangor Darul Ehsan	Freehold	Branch premises	2,776	28	1,834	07/09/1998
69	No. 26 & 27, Jalan Kenari 1 Bandar Puchong Jaya 47100 Puchong Selangor Darul Ehsan	Freehold	Branch premises	3,600	15	1,729	22/01/1999
70	No. 2, Jalan PJU 5/8 Dataran Sunway Kota Damansara 47810b Petaling Jaya Selangor Darul Ehsan	Leasehold - 99 years (23/11/2100)	Branch premises	12,892	7	3,663	02/12/2005
71	No. J09-6 and J02-06 Paradise Lagoon Holiday Apartment Batu 3 1/2 Jalan Pantai 70100 Port Dickson Negeri Sembilan Darul Khusus	Leasehold - 99 years (06/07/2087)	2 units apartment	2,088	15	239	21/04/1994
72	No. S-3, Kompleks Negeri Jalan Dr. Krishnan 70000 Seremban Negeri Sembilan Darul Khusus	Leasehold - 99 years (30/01/2078)	Storage for branches	1,680	27	309	29/06/1981
73	Lot 4 & 5, Jalan TMR 1 Taman Melaka Raya 75000 Melaka	Leasehold - 99 years (20/03/2094)	Branch premises	3,132	15	614	17/04/1998
74	No. 67 & 69, Jalan Merdeka 75000 Taman Merdeka Raya Melaka	Leasehold - 99 years (07/07/2093)	Branch premises	3,080	16	747	15/08/1999
75	No. 21 & 23, Jalan Indah 15/1 Bukit Indah 81200 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	5,090	9	1,799	27/05/2002
76	No. 35, 37 & 39, Jalan Johor Satu Taman Desa Cemerlang 81800 Ulu Tiram Johor Darul Takzim	Freehold	Branch premises	13,965	8	2,332	02/12/2003

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
77	No. 21, Jalan Permas 10/1 Bandar Baru Permas Jaya 81750 Masai Johor Darul Takzim	Freehold	Branch premises	2,624	14	1,303	04/05/1999
78	No. C05-07 Genting Permai Park & Resort 6th Mile 69000 Genting Highland Pahang Darul Makmur	Freehold	1 unit apartment	1,029	12	210	02/09/1996
79	No. B-278 & B-280 Jalan Beserah 25300 Kuantan Pahang Darul Makmur	Freehold	Branch premises	3,208	10	1,618	08/04/1999
80	No. 31, 33, 35 & 37 Jalan Usahaniaga 1 Taman Niagajaya 14000 Bukit Mertajam Seberang Perai Tengah, Penang	Freehold	Branch premises	15,844	8	1,185	07/10/2003
81	No. 26 & 27 Jalan Permatang Gedong Taman Sejati Indah 08000 Sungai Petani	Freehold	Branch premises	2,800	14	712	03/09/1999
82	Lot 171, Jalan Council 95000 Bandar Sri Aman Sarawak	Leasehold - 60 years (20/06/2050)	Branch premises	1,740	15	181	21/06/1990
83	Lot No. 2013, Jalan Pisang Barat 93150 Kuching Sarawak	Leasehold - 99 years (31/12/2038)	Branch premises	1,390	18	-	23/09/1992
84	No: 3/G14, 3/G15 & 3/G16 Block 3, Lorong Api-Api 2 Api-Api Centre 88000 Kota Kinabalu Sabah	Leasehold - 99 years (31/12/2086)	Branch premises	4,141	16	2,114	02/04/1997
85	No. 177, Limbok Hill 70000 Seremban N. Sembilan	Freehold	Single-storey detached house	6,730	38	14	16/08/1972
86	Lot 942 Jalan Parry 98000 Miri Sarawak	Leasehold - 60 Years (06/04/2057)	Branch premises	5,496	14	969	31/01/1997

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
87	Lot 1, 2 & 3, Block 18 Bandar Indah Mile 4, North Road Bandar Indah Sandakan, Sabah	Freehold	Branch premises	6,760	11	1,680	08/11/2001
88	No 3, Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh	Leasehold - 99 Years (21/11/2094)	Branch premises	8,846	16	542	04/12/1995
89	Bangunan HLA 7, Jalan Yayasan 86000 Kluang	Leasehold - 99 Years (23/03/2084)	Branch premises	6,019	22	452	30/12/1989
90	Wisma Hong Leong 18, Jalan Perak 50450 Kuala Lumpur	Freehold	Office premises	333,594	10	230,000	13/11/2001
91	Unit 2.5.1, 1A Stonor Condominium, Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	18	585	30/06/1993
92	Unit 2.1.2, 1A Stonor Condominium, Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	18	585	30/06/1993
93	Unit 1.1.5, 1A Stonor Condominium, Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,815	18	554	30/06/1993
94	Unit 1.1.3, 1A Stonor Condominium, Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,288	18	392	30/06/1993
95	14-23 Darul Aman Jalan Tun Ismail 25000 Kuantan Pahang	Freehold	Branch premises	5,610	18	490	21/02/1993
96	No 1 Persiaran Greentown 4 Pusat Perdagangan Greentown 30450 Ipoh Perak	Leasehold - 99 Years (21/11/2094)	Branch premises	5,246	16	575	04/12/1995
97	13-2B, 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold - 99 Years (11/12/2088)	Apartment	468	7	55	2004

OTHER INFORMATION
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2011 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM'000)	Date of acquisition
98	Block B, PJ City Jalan 219 Seksyen 51A 46100 Petaling Jaya Selangor	Leasehold - 99 Years (12/12/2107)	Office premises	202,194	3	72,039	29/04/2008
99	51-53, Persiaran Greenhill 30450 Ipoh, Perak	Freehold & leasehold - 999 years	Branch premises	4,793	17	1,955	31/12/1993
100	Unit 1-10, 8th Floor Island Place Tower Island Place No 510 King's Road Hong Kong	Leasehold - 55 years (30/06/2047)	Office	20,000	16	45,037	20/02/2010

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-second Annual General Meeting of the Company to be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Friday, 28 October 2011 at 10.30 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 YBhg Tan Sri Quek Leng Chan as a Director		
3.	To re-elect Mr Quek Kon Sean as a Director		
4	To re-elect Ms Lim Lean See as a Director		
5.	To re-elect Mr Saw Kok Wei as a Director		
6.	To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director pursuant to Section 129 of the Companies Act, 1965		
7.	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.		
	Special Business		
8.	To approve the ordinary resolution on authority to Directors to issue shares		
9.	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		
10.	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 _____________ 2011

______________________ 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

Fold This Flap For Sealing

Then Fold Here

Affix
Stamp

The Company Secretary
Hong Leong Financial Group Berhad
(Company No. 8024-W)

Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

1st Fold Here