

HONG LEONG CREDIT BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	Current quarter ended		Cumulative quarter ended	
	30/06/05	30/06/04	30/06/05	30/06/04
	RM '000	RM '000	RM '000	RM '000
Revenue	847,053	757,542	2,654,027	2,539,628
Gross operating profit	348,078	342,689	1,173,157	1,254,262
Other operating income	125,270	134,212	501,038	387,393
Total operating expenses	(240,199)	(274,664)	(840,562)	(992,304)
Selling and marketing costs	(19,294)	(13,366)	(67,526)	(39,487)
Administration expenses	(28,274)	(30,958)	(104,098)	(105,349)
Personnel costs	(92,034)	(80,092)	(350,199)	(311,993)
Loan loss and other provisions	(50,321)	(80,750)	(166,106)	(372,425)
Other operating expenses	(50,276)	(69,498)	(152,633)	(163,050)
Gain on deemed disposal of interest in subsidiary company	-	103,212	-	103,212
Profit from operations	233,149	305,449	833,633	752,563
Finance costs	(5,942)	(6,774)	(25,400)	(33,610)
	227,207	298,675	808,233	718,953
Profit from associated companies	-	(483)	(61)	87
Profit before taxation	227,207	298,192	808,172	719,040
Taxation	(61,887)	(47,433)	(226,722)	(173,040)
Profit after taxation	165,320	250,759	581,450	546,000
Less : Minority interest	(42,818)	(40,292)	(206,213)	(157,533)
Profit attributable to shareholders	122,502	210,467	375,237	388,467
Basic earnings per ordinary share (sen)	11.8	20.2	36.1	37.3
Diluted earnings per ordinary share (sen)	11.8	20.2	36.1	37.3

HONG LEONG CREDIT BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED BALANCE SHEETS AS AT 30 JUNE 2005

	As at 30/06/05 RM '000	As at 30/06/04 RM '000
<u>Assets</u>		
Cash and short term funds	11,580,037	14,949,903
Securities purchased under resale agreements	9,928,492	-
Deposits and placements with financial institutions	3,647,037	3,164,153
Dealing securities	2,890,344	2,616,223
Investments	4,605,744	5,534,850
Loans, advances and financing	25,941,803	23,271,945
Trade receivables	189,279	206,069
Other receivables	403,990	1,425,269
Statutory deposits with Bank Negara Malaysia	839,600	691,988
Tax recoverable	21,030	39,384
Investment in associated companies	-	1,967
Deferred tax asset	116,964	143,819
Property, plant and equipment	341,559	324,886
Goodwill arising from consolidation	471,383	380,985
Total assets	60,977,262	52,751,441
<u>Liabilities</u>		
Deposits from customers	39,722,456	37,783,993
Deposits and placements of banks and other financial institutions	2,066,162	1,451,519
Obligations on securities sold under repurchase agreements	8,612,248	3,594,893
Floating rate certificates of deposits	417,916	-
Bills and acceptances payable	568,895	1,248,309
Payables and other liabilities	978,301	510,502
Provision for claims	161,339	146,265
Provision for taxation	44,406	82,350
Bank loans and overdrafts	201,000	216,800
Long term liabilities	269,098	300,000
Insurance funds	3,037,237	2,633,301
Total liabilities	56,079,058	47,967,932
<u>Financed by:</u>		
Share capital	1,040,722	1,040,722
Capital reserves	1,101,513	1,202,389
Retained profit	1,069,534	756,286
Shareholders' funds	3,211,769	2,999,397
Minority interest	1,686,435	1,784,112
	4,898,204	4,783,509
Total liabilities and shareholders' funds	60,977,262	52,751,441
Commitment and contingencies	38,398,210	20,250,802

HONG LEONG CREDIT BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED CONSOLIDATED CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	30/06/05 RM '000	30/06/04 RM '000
Cash flows from operating activities		
Net profit before taxation	808,172	719,040
<u>Adjustments for :</u>		
Non-cash items	530,336	887,065
Operating profit before working capital changes	1,338,508	1,606,105
(Increase) / decrease in assets / receivables	(1,811,124)	885,429
(Decrease) / increase in liabilities / payables	(2,185,025)	4,736,422
	(3,996,149)	5,621,851
Cash (used in) / generated from operations	(2,657,641)	7,227,956
Income tax paid	(232,340)	(243,519)
Interest paid	(26,894)	(34,720)
Interest received	3,328	4,576
	(255,906)	(273,663)
Net cash (used in) / generated from operating activities	(2,913,547)	6,954,293
Cash flow from investing activities		
Interest received on dealing / investment security	161,113	93,620
Dividends received from investment	4,975	4,792
Proceeds from disposal of property, plant and equipment	19,053	17,014
Proceeds from disposal of interest in subsidiary and associated company	9,687	-
Proceeds from disposal of associates	-	21,848
Proceeds from deemed disposal of interest in subsidiary company	-	580,110
Acquisition of new subsidiary company	1,629	-
Purchase of property, plant and equipment	(81,941)	(78,248)
Capital repayment from Bursa Malaysia Berhad	3,409	-
Net cash generated from investing activities	117,925	639,136
Cash flow from financing activities		
Dividend paid to shareholders of the Company	(164,018)	(117,796)
Dividend paid to minority interest	(107,376)	(155,469)
Net proceeds from issuance of shares	-	1,946
Repayment of term loans	(100,000)	(120,000)
Repayment of revolving credit/other bank loans	(15,800)	(104,300)
Purchase/(repayment) of medium term notes and commercial papers	69,000	(32,000)
Purchase of treasury shares in subsidiary company	(274,375)	-
Net cash used in financing activities	(592,569)	(527,619)
Net (decrease) / increase in cash and cash equivalents	(3,388,191)	7,065,810
Cash and cash equivalents as at 1 July	14,944,024	7,877,346
Effect of change in foreign exchange rate	639	868
Cash and cash equivalents as at 30 June	11,556,472	14,944,024
Analysis of cash and cash equivalents as at 30 June		
Cash and short term funds	11,580,037	14,949,903
Overdraft	-	-
	11,580,037	14,949,903
Less: Remisiers' and clients' trust monies	(23,565)	(5,879)
	11,556,472	14,944,024

HONG LEONG CREDIT BERHAD (8024-W)
AUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	Share Capital RM '000	Share Premium RM '000	Statutory Reserves RM '000	Other Capital Reserves & General Reserves RM '000	Exchange Fluctuation Reserves RM '000	Retained Profits RM '000	Total RM '000
Opening balance as at 1 July 2004	1,040,722	71,216	1,018,783	87,317	25,073	756,286	2,999,397
Exchange fluctuation differences	-	-	-	-	1,153	-	1,153
Transfer from statutory reserves	-	-	(147,970)	-	-	147,970	-
1st interim dividend	-	-	-	-	-	(59,946)	(59,946)
2nd interim dividend	-	-	-	-	-	(104,072)	(104,072)
Net profit for financial year ended 30 June 2005	-	-	-	-	-	375,237	375,237
Realisation of merger reserve due to capital reduction exercise of HLF	-	-	-	45,941	-	(45,941)	-
Closing balance as at 30 June 2005	1,040,722	71,216	870,813	133,258	26,226	1,069,534	3,211,769
Opening balance as at 1 July 2003	1,039,988	450,962	963,183	87,317	25,477	763,781	3,330,708
Exchange fluctuation differences	-	-	-	-	(404)	-	(404)
Transfer to statutory reserves	-	-	55,600	-	-	(55,600)	-
Issue of new shares arising from exercise of ESOS	734	1,237	-	-	-	-	1,971
Share issue cost	-	(25)	-	-	-	-	(25)
1st interim dividend	-	-	-	-	-	(44,945)	(44,945)
2nd interim dividend	-	-	-	-	-	(72,851)	(72,851)
Net profit for financial year ended 30 June 2004	-	-	-	-	-	388,467	388,467
Effects due to capital distribution of associated company	-	(380,958)	-	-	-	(222,566)	(603,524)
Closing balance as at 30 June 2004	1,040,722	71,216	1,018,783	87,317	25,073	756,286	2,999,397

HONG LEONG CREDIT BERHAD (“HLC”)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

1. Basis of preparation

The condensed financial statements are audited and have been prepared in compliance with Financial Reporting Standards (“FRS”) 134: Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of the Bursa Malaysia Securities Berhad and should be read in conjunction with audited financial statements of the Group for the financial year ended 30 June 2004. The financial statements of the Group are prepared using accounting policies and methods of computation consistent with those adopted in the annual financial statements for the financial year ended 30 June 2004 and applicable approved accounting standards which became effective for the current financial year ended 30 June 2005.

2. Status of matters giving rise to the auditor’s qualified report in the annual financial statement for the financial year ended 30 June 2004 of HLC

There was no qualified report issued by the auditors in the annual financial statements for the financial year ended 30 June 2004.

3. Seasonality or cyclicity of operations

The business operations of the Group have not been affected by any material seasonal and cyclical factors.

4. Exceptional items / unusual events affecting financial statements

There were no exceptional items or unusual events affecting the assets, liabilities, equity, net income or cash flows of the Group during the financial quarter ended 30 June 2005.

5. Variation from financial estimates reported in preceding financial period/year

There were no material changes in estimates of amounts reported in the preceding financial period/year that have a material effect in the current financial period.

6. Issuance and repayment of debt and equity securities

There was no repayment of debt or equity share, share buy-back, share cancellation, shares held as treasury shares nor resale of treasury shares during the financial year ended 30 June 2005.

7. Dividends Paid

- (a) A first interim dividend of 8 sen per share less income tax, amounting to RM59,945,601 in respect of the financial year ended 30 June 2005 was paid on 28 December 2004 (2004: 6 sen per share less income tax).
- (b) A second interim dividend of 10 sen per share tax exempt amounting to RM104,072,224 in respect of the financial year ended 30 June 2005 was paid on 29 June 2005 (2004: 7 sen per share tax exempt).
- (c) Total dividend paid for the financial year ended 30 June 2005: 8 sen per share less income tax and 10 sen per share tax exempt (2004: 6 sen per share less income tax and 7 sen per share tax exempt).

8. Segmental reporting

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

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

Inter-segment pricing is determined based on arms length basis. These transactions are eliminated on consolidation. Segment results, assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated item mainly comprise tax recoverable, tax payable and 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:

Banking	Licensed commercial banking business
Securities	Stocks and securities broking, and fund and unit trust management
Insurance	Life and general insurance business
Property development*	Property investment and development
Other operations	Investment holding, provision of management services, information technology and internet related business

* In the previous financial year, the Group had completed the demerger of the associated company via capital distribution and the disposal of its residual shares.

Group	Banking	Securities	Insurance	Property development	Others	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2005							
Revenue							
External sales	2,114,268	82,324	456,521	-	914	-	2,654,027
Intersegment sales	21,346	3,477	8,178	-	3,144	(36,145)	-
	<u>2,135,614</u>	<u>85,801</u>	<u>464,699</u>	<u>-</u>	<u>4,058</u>	<u>(36,145)</u>	<u>2,654,027</u>
Results							
Segment results							
Share of profits from associates	722,178	20,008	95,528	-	306,509	(310,590)	833,633
Finance cost	-	(61)	-	-	-	-	(61)
Profit before taxation							(25,400)
Taxation							808,172
Profit after taxation							(226,722)
Minority interest							581,450
Net profit for the year							(206,213)
							<u>375,237</u>
Other information							
Segment assets	57,829,565	276,335	3,800,823	-	45,868	(1,113,323)	60,839,268
Other corporate assets							137,994
Total consolidated assets							<u>60,977,262</u>
Segment liabilities	53,186,237	65,535	3,408,597	-	17,508	(1,113,323)	55,564,554
Other corporate liabilities							514,504
Total consolidated liabilities							<u>56,079,058</u>
Capital expenditure	65,937	948	13,754	-	1,302	-	-
Depreciation	51,582	2,161	12,354	-	425	-	-
Net interest income suspended	126,137	-	-	-	-	-	-
Loan loss and other provision	166,106	-	-	-	-	-	-

Group	Banking	Securities	Insurance	Property development	Others	Eliminations	Consolidated
30 June 2004	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue							
External sales	2,057,897	83,745	395,452	-	2,534	-	2,539,628
Intersegment sales	14,707	4,607	6,464	-	3,062	(28,840)	-
	<u>2,072,604</u>	<u>88,352</u>	<u>401,916</u>	-	<u>5,596</u>	<u>(28,840)</u>	<u>2,539,628</u>
Results							
Segment results	528,721	35,627	124,116	-	64,096	3	752,563
Share of profits from associates	-	(399)	-	486	-	-	87
Finance cost							(33,610)
Profit before taxation							719,040
Taxation							(173,040)
Profit after taxation							546,000
Minority interest							(157,533)
Net profit for the year							<u>388,467</u>
Other information							
Segment assets	49,149,205	318,196	3,317,595	-	42,729	(261,454)	52,566,271
Investment in associate	-	1,967	-	-	-	-	1,967
Other corporate assets							183,203
Total consolidated assets	44,565,622	106,446	2,941,513	-	16,652	(261,451)	47,368,782
Segment liabilities							599,150
Other corporate liabilities							47,967,932
Total consolidated liabilities							
Capital expenditure	63,400	960	13,838	-	50	-	-
Depreciation	43,360	2,366	8,525	-	419	-	-
Net interest income suspended	132,407	-	-	-	-	-	-
Loan loss and other provision	367,437	-	-	-	4,988	-	-

9. Property, plant and equipment

The valuations of property, plant and equipment had been brought forward without amendment from the previous annual financial statements.

10. Events after Balance Sheet date

Other than as disclosed in Note 8 under Additional Information required by Bursa Malaysia Securities Berhad's Listing Requirements, there was no material events subsequent to the end of the financial year ended 30 June 2005 to be disclosed.

11. Changes in composition of the Group

There were no changes in the composition of the Group for the current financial period and up to the date of this report except for the following:

- On 1 August 2004, Hong Leong Bank Berhad ("the Bank" or HLB"), a subsidiary company of the Company, had effected its merger with its subsidiary company, Hong Leong Finance Berhad ("HLF") via a transfer of finance company business excluding the leasing business to the Bank. The leasing business of HLF was transferred to Hong Leong Leasing Sdn Bhd on the same day. The scheme of merger was carried out after obtaining Bank Negara Malaysia's ("BNM") approval and Vesting Orders from the High Court of Malaya on 16 July 2004 and 27 July 2004 respectively.
- On 20 November 2004, Visia Nominees Sdn Bhd, an indirect wholly-owned subsidiary company of HLB which was placed under member's voluntary liquidation had been dissolved.
- On 20 December 2004, HLG Capital Berhad ("HLG Capital"), a 75% owned subsidiary company of the Company, had acquired the entire equity interest comprising 2 ordinary shares of RM1.00 each in HLG Capital Advisory Sdn Bhd (formerly known as HLG Nominees Sdn Bhd) from HLG Securities Sdn Bhd, a wholly-owned subsidiary company of HLG Capital, for cash at par.
- On 25 March 2005, the Company had placed Heritage Vest (M) Sdn Bhd, a wholly-owned subsidiary company of the Company, under members' voluntary liquidation.
- On 29 March 2005, HLG Capital had disposed of the entire equity interest comprising 51 million shares in HLG Philippines, Inc to DHG Capital Holdings, Inc ("DHG") for a cash consideration of Peso 141,433,000 (or approximately RM9.52 million).
- On 6 April 2005, Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary company of Hong Leong Assurance Berhad, had completed the acquisition of Dao Heng Insurance Co. Limited ("DHI") for a cash consideration of HKD152,551,910 (or approximately RM74,750,436).
- On 28 March 2005, the Bank had incorporated Hong Leong Islamic Bank Berhad ("HLIB"), a wholly-owned subsidiary company of the Bank, for the purpose of undertaking the Islamic Banking business pursuant to Subsection 3(4) of the Islamic Banking Act, 1983.

The Bank had, on 28 June 2005, announced that the Minister of Finance had granted an Islamic banking licence to HLIB and a Vesting Order had also been obtained from the High Court of Malaya for the transfer and vesting of the Islamic banking business of HLB to HLIB. Effective 1 July 2005, the Bank had conducted its Islamic banking business through HLIB.

- On 16 June 2005, the Bank announced that it had entered into a Sale and Purchase Agreement with HLCM Capital Sdn Bhd (“HLCM Capital”) to dispose of its 100% equity interest in Credit Corporation (Malaysia) Sdn Bhd comprising two (2) ordinary shares of RM1.00 each to HLCM Capital for cash consideration of RM5,000.00 (“Proposed Disposal”).
- On 17 June 2005, the Company had placed Hong Leong Equities (Hong Kong) Limited, a wholly-owned subsidiary company of the Company, under members’ voluntary liquidation.

12. Commitments and contingencies

- (a) In the normal course of business, the banking subsidiary company make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are not secured against the assets of the Group.

The commitments and contingencies constitute the following:

	Current Period Ended 30/06/2005		Financial Year Ended 30/06/2004	
	Principal Amount RM’000	Credit Equivalent RM’000	Principal Amount RM’000	Credit Equivalent RM’000
The Banking Group				
Direct credit substitutes	161,538	161,538	156,131	156,131
Transaction-related contingent items	308,963	154,482	433,562	216,781
Short-term self liquidating trade-related contingencies	469,936	93,987	482,815	96,563
Obligations under underwriting agreement	-	-	62,214	31,107
Irrevocable commitments to extend credit				
-maturity more than 1 year	4,122,753	2,061,377	3,856,852	1,928,426
-maturity less than 1 year	9,181,257	-	8,409,576	-
Foreign exchange related contracts	7,639,221	158,934	4,659,469	63,814
Interest rate related contracts	16,389,047	74,294	2,083,591	33,797
Equity related contracts	106,922	1,604	55,335	415
Miscellaneous	694	-	556	-
Total	38,380,331	2,706,216	20,200,101	2,527,034

- (b) Other commitments and contingencies – unsecured

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

The size of each of the five funds was above the minimum of RM1 million as at 30 June 2005.

13. Related party transactions

All related party transactions within the Group had been entered into in the normal course of business and were carried out on normal commercial terms.

HONG LEONG CREDIT BERHAD (“HLC”)

ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

1. Review of performance

Current quarter against previous corresponding quarter

The Group achieved a profit before tax of RM227.2 million for the quarter ended 30 June 2005 as compared to RM298.2 million in the previous corresponding quarter, a decrease of RM71.0 million or 23.8%. This was mainly due to a deemed gain of RM 103.2 million from the HLB Bumiputera issue in the previous year.

The Banking division recorded a profit before taxation of RM157.3 million for the current quarter ended 30 June 2005, an increase of RM29.6 million as compared to previous corresponding quarter. Turnover increased by RM13.1 million, spurred by higher conventional non-interest income of RM6.0 million while Islamic Banking income also increased by RM21.1 million. Loan loss provision declined by RM30.1 million arising from lower specific provisions charged coupled with higher bad debts recoveries.

The Insurance division registered a profit before tax of RM75.2 million for the current quarter compared to a profit before tax RM72.2 million in the previous corresponding quarter.

The Stockbroking and Asset Management division registered a profit before tax of RM0.7 million for the current quarter compared to a profit before taxation of RM8.6 million in the previous corresponding quarter. The profit before taxation was lower in the current financial quarter under review due to lower business volume as a result of much poorer stock market conditions and a RM4.4 million provision for doubtful debts. In the previous corresponding period, the division also had an exceptional gain of RM6.2 million arising from the allocation of approximately 2.3 million ordinary shares in Bursa Malaysia Berhad arising from its demutualisation exercise.

Financial year-to-date against previous corresponding period

The Group recorded a higher profit before tax of RM808.2 million as compared to RM719.0 million in the previous financial year. This was mainly due to higher profits from the Banking division and savings in finance costs of RM8.2 million.

The Banking division recorded a profit before tax of RM722.2 million, an increase of RM193.5 million as compared to RM528.7 million in the previous financial year. Total income increased by RM69.7 million, mainly from non-interest income and Islamic operations. Loan loss provision declined significantly due to the absence of lumpy specific provisions made in the previous financial year.

The Insurance division registered a profit before tax of RM95.5 million for the financial year ended 30 June 2005 compared to a profit before tax of RM124.1 million for the previous financial year. This was principally due to lower investment income as well as lower underwriting profit. Investment income decreased as compared to the previous financial year mainly as a result of the disposal of the division's equity holdings to take advantage of the positive sentiments in Bursa Malaysia during that financial year.

The Stockbroking and Asset Management division registered a profit before tax of RM16.9 million compared to RM30.7 million in the previous financial year. The lower profit before tax for the current financial year was mainly attributable to the business volume as a result of less favourable stock market conditions compared to previous financial year. In addition, there was a RM6.2 million gain arising from Bursa Shares received in the previous financial year.

2. Review of performance of current quarter against preceding quarter

For the current financial quarter under review, the Group recorded a profit before tax of RM227.2 million as compared to RM197.2 million in the preceding quarter. This increase was mainly contributed by higher profits from the Insurance division.

The Banking division recorded a pre-tax profit of RM157.3 million as compared to RM188.1 million in the preceding quarter, a decrease of RM30.8 million. Turnover decreased by RM13.7 million while loan loss provision increased by RM8.5 million, mainly from higher specific provision charged.

The Insurance division registered a profit before taxation of RM75.2 million for the current quarter as compared to RM10.2 million in the preceding quarter. The increase was mainly due to surplus transferred from Life Fund.

The Stockbroking and Asset Management division registered a profit before tax of RM0.7 million as compared to RM6.6 million in the preceding quarter. The lower profit before taxation in the current quarter was due to lower business volume as a result of less favourable market conditions and a provision for doubtful debts of RM4.4 million compared to the preceding quarter.

3. Prospects for next financial year

Barring unforeseen circumstances, the Group is expected to perform satisfactorily for the next financial year.

4. Variance of actual profit from forecasted profit

There was no profit forecast or profit guarantee issued by the Group.

5. Taxation

Provision based on profits for the financial year ended 30 June 2005:

	Group Current Quarter Ended		Group Cumulative Quarter Ended	
	30/06/2005 RM'000	30/06/2004 RM'000	30/06/2005 RM'000	30/06/2004 RM'000
Tax expenses				
Malaysian – current	(64,424)	(56,339)	(238,616)	(187,393)
Deferred tax expenses				
Malaysian – current	(36,468)	2,602	(26,916)	8,139
Tax expenses on share of profit from associated companies	30	(302)	-	(392)
	(100,862)	(54,039)	(265,532)	(179,646)
Prior year over/(under) provision - Malaysian	38,975	6,606	38,810	6,606
	(61,887)	(47,433)	(226,722)	(173,040)

The effective tax rate for the Group for the current quarter and the financial period is higher than the statutory rate of taxation due to non-availability of Group tax relief in respect of losses incurred by certain subsidiaries in the Group and non-deductibility of certain expenses.

6. Sale of properties / unquoted investments

There was no sale of properties and / or unquoted investments during the financial quarter / period under review.

7. Purchase / sale of quoted securities of the Group

There was no other purchase or disposal of quoted securities for the financial period under review other than those purchased or disposed in the ordinary course of business.

8. Status of corporate proposals

There were no corporate proposals announced but not completed other than as mentioned below:

- (a) On 6 June 2005, Hong Leong Bank Berhad (“the Bank” or HLB”), a subsidiary company of the Company, announced that BNM had no objection to a proposed issuance of United States Dollar Subordinated Debt by the Bank to raise funds to be utilised for general banking and other corporate purposes (“Proposed Issuance”). The Proposed Issuance had been approved by Securities Commission on 22 June 2005.

(b) On 3 August 2005, the Bank issued USD200 million in aggregate principal amount of Subordinated Bonds (“the Bonds”) due 2015 callable with step-up in 2010. The Bonds bear interest at the rate of 5.25% per annum from, and including 3 August 2005 to, but excluding 3 August 2010 and, thereafter, at a rate per annum equal to the US Treasury Rate plus 2.717%. The interest is payable semi-annually in arrears on 3 February and 3 August in each year, commencing on 3 February 2006. The Bonds were issued at a price of 99.848 per cent of the principal amount of the Bonds. The Bonds will, subject to the prior written approval of Bank Negara Malaysia, if required, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or any other jurisdiction where the Bank has to pay tax in relation to the Bonds, at any time at their principal amount plus accrued interest.

The Bonds constitute unsecured liabilities of the Bank, and are subordinated in right of payment to the deposit liabilities and all other liabilities of the Bank 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 the Group and the Bank.

9. Group borrowings

The Group borrowings include:

	As at 30/06/05 RM'000	As at 30/06/04 RM'000
Short Term – unsecured	201,000	216,800
Long Term – unsecured	269,098	300,000
Total	470,098	516,800

All borrowings are denominated in Ringgit Malaysia.

10. Off-Balance sheet financial instruments

The Banking Group has incurred the following:

Items	Principal Amount	1 mth or less	>1 – 3 Mths	>3 – 6 mths	>6 –12 Mths	>1 – 5 Yrs	>5 yrs	Margin Requirement
RM'000								
Foreign exchange related contracts								
- forwards	3,024,415	1,214,491	1,624,248	131,155	54,521	-	-	-
- swaps	3,875,196	1,986,910	1,357,387	530,899	-	-	-	-
- options	739,610	390,077	236,006	108,937	4,590	-	-	-
Interest rate related contracts								
- forwards	-	-	-	-	-	-	-	-
- futures	12,867,000	380,000	1,186,000	1,111,000	2,377,000	7,813,000	-	-
- swaps	3,522,047	-	20,000	-	368,895	3,133,152	-	-
Total	24,028,268	3,971,478	4,423,641	1,881,991	2,805,006	10,946,152	-	-

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

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off balance sheet positions. As at 30 June 2005, the notional amount of contracts which were not hedged and hence, exposed to foreign exchange and interest rate market risk was RM552,922,000 (FYE June 2004: RM228,765,000) and RM4,592,978,000 (FYE June 2004: RM1,533,591,000) respectively.

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the banking subsidiary has a gain position. As at 30 June 2005, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM69,528,000 (FYE June 2004: RM10,689,000). This amount will be increased or decreased over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Related accounting policies

The accounting policies applied for recognising the financial instruments concerned are the same as those applied for the audited annual financial statements.

11. Material litigation

The Company was served with a Writ of Summons dated 21 March 2002 filed by Borneo Securities Holdings Sdn Bhd ("BSH") in relation to the termination of the Sale and Purchase Agreement ("SPA") dated 31 October 2000 between HLG Securities Sdn Bhd ("HLG Sec") and BSH for the proposed acquisition of 100% equity interest in Borneo Securities Sdn Bhd ("BS") for a total purchase consideration of RM88 million comprising RM31 million cash and the balance RM57 million to be satisfied through the issue of new HLG shares to BSH ("Proposed Acquisition"). In conjunction with the Proposed Acquisition, BSH issued a letter to HLC undertaking to give HLC a first right of refusal to purchase any or all of the new HLG shares that BSH may, from time to time, wish to sell ("Undertaking").

In view of the Undertaking, HLC was deemed interested in the Proposed Acquisition and in compliance with the rules on related party transactions of the Bursa Malaysia Securities Berhad, HLC had to abstain from voting at the extraordinary general meeting ("EGM") of HLG convened to consider the Proposed Acquisition. BSH alleged that HLC ought not to have abstained from voting at the EGM and in so doing, had caused the SPA to be terminated. The Company is of the view that the claim is baseless and had appointed lawyers to defend the suit.

Other than the above case, there is no pending material litigation.

12. Dividends

- (a) The Board does not recommended any final dividends to be paid for the financial year ended 30 June 2005 (2004: nil)
- (b) Total dividend for the financial year ended 30 June 2005: 8 sen per share less income tax and 10 sen per share tax exempt (2004: 6 sen per share less income tax and 7 sen per share tax exempt).

13. Earnings per share

- (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit after taxation and minority interest by the weighted average number of ordinary shares in issue during the financial year.

	Group		Group	
	Current Quarter Ended		Financial Year Ended	
	30/06/05	30/06/04	30/06/05	30/06/04
	RM'000	RM'000	RM'000	RM'000
Weighted Average Number Of Ordinary Shares				
Weighted average number of ordinary shares	1,040,722	1,040,718	1,040,722	1,040,455
Net profit attributable to shareholders of the company	122,502	210,467	375,237	388,467
Basic earnings per share (Sen)	11.8	20.2	36.1	37.3

(b) Fully diluted earnings per share

Diluted earnings per share is calculated by dividing the profit after taxation and minority interest by the weighted average number of ordinary shares (diluted) during the financial period.

	Group		Group	
	Current Quarter Ended		Financial Year Ended	
	30/06/05	30/06/04	30/06/05	30/06/04
	RM'000	RM'000	RM'000	RM'000
Fully Diluted Weighted Average Number Of Ordinary Shares				
Weighted average no. of shares as at end of financial period	1,040,722	1,040,718	1,040,722	1,040,455
Effect of share options	-	389	-	389
Weighted average number of ordinary shares (Diluted)	1,040,722	1,041,107	1,040,722	1,040,844
Net profit attributable to shareholders of the company	122,502	210,467	375,237	388,467
Fully diluted earnings per share (Sen)	11.8	20.2	36.1	37.3