

HONG LEONG CREDIT BERHAD (“HLC”)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2005

1. Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with Financial Reporting Standard (“FRS”) 134: Interim Financial Reporting (previously known as Malaysian Accounting Standards Board (“MASB”) 26, Interim Financial Reporting) issued by MASB 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 2005.

The accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the previous audited annual financial statements except for the adoption of the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by Bank Negara Malaysia which became effective for the current financial year. The adoption of the revised BNM/GP8 have resulted in changes in the accounting policies of the Group, except for the Insurance and Stockbroking subsidiaries, which have been applied retrospectively in this condensed interim financial statements and the details are disclosed in Note 30. The Insurance and Stockbroking subsidiaries are not required to adopt the revised BNM/GP8 and the financial impact of the non-adoption is disclosed in Note 31.

However, the Group has been given indulgence by BNM from complying with the requirements on impairment of loans under the revised BNM/GP8 until 1 July 2006. Therefore, the allowance for losses on loans and financing are computed based on the requirements of BNM/GP3 which is consistent with the adoption made in the previous audited annual financial statements.

The adoption of the revised BNM/GP8 has resulted in changes in the accounting policies of the group, except for the Insurance and Stockbroking subsidiaries, which have been applied retrospectively in this unaudited financial statements.

2. Status of matters giving rise to the auditor’s qualified report in the annual financial statement for the financial year ended 30 June 2005 of HLC

There was no qualified report issued by the auditors in the annual financial statements for the financial year ended 30 June 2005.

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 current financial period.

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 period ended 30 September 2005.

7. Dividends paid

No dividends were paid by HLC during the financial period ended 30 September 2005.

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
Other operations	Investment holding, provision of management services, information technology and internet related business

Group	Banking	Securities	Insurance	Others	Eliminations	Consolidated
30 September 2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue						
External sales	564,774	17,269	61,390	2,270	-	645,703
Intersegment sales	990	149	3,635	272	(5,046)	-
	<u>565,764</u>	<u>17,418</u>	<u>65,025</u>	<u>2,542</u>	<u>(5,046)</u>	<u>645,703</u>
Results						
Segment results	197,487	4,956	7,467	4,501	(5,872)	208,539
Interest expense						(6,038)
Profit before taxation						<u>202,501</u>
Taxation						(58,134)
Profit after taxation						<u>144,367</u>
Minority interest						(54,064)
Net profit for the period						<u><u>90,303</u></u>
Other information						
Segment assets	60,803,274	295,450	3,954,314	45,054	(38,107)	65,059,985
Other corporate assets						<u>126,693</u>
Total consolidated assets						<u><u>65,186,678</u></u>
Segment liabilities	56,006,789	82,379	3,557,555	24,174	(19,551)	59,651,346
Other corporate liabilities						<u>495,821</u>
Total consolidated liabilities						<u><u>60,147,167</u></u>
Capital expenditure	25,171	77	3,183	129	-	-
Depreciation	13,778	507	3,305	132	-	-
Net interest income suspended	4,008	-	-	-	-	-
Loan loss and other provision	30,008	-	-	-	-	-

Group	Banking	Securities	Insurance	Others	Eliminations	Consolidated
30 September 2004	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue						
External sales	521,603	18,550	46,262	126	-	586,541
Intersegment sales	3,493	423	3,712	801	(8,429)	-
	<u>525,096</u>	<u>18,973</u>	<u>49,974</u>	<u>927</u>	<u>(8,429)</u>	<u>586,541</u>

Results

Segment results	195,025	4,749	911	(634)	(84)	199,967
Share of profits from associates	-	(61)	-	-	-	(61)
Interest expense						(7,143)
Profit before taxation						<u>192,763</u>
Taxation						<u>(56,576)</u>
Profit after taxation						<u>136,187</u>
Minority interest						<u>(56,306)</u>
Net profit for the period						<u><u>79,881</u></u>

Other information

Segment assets	51,401,661	342,241	3,408,922	58,494	(248,934)	54,962,384
Investment in associate	-	1,890	-	-	-	1,890
Other corporate assets						<u>167,341</u>
Total consolidated assets						<u><u>55,131,615</u></u>

Segment liabilities

Other corporate liabilities	46,661,222	137,325	3,042,177	15,871	(250,524)	49,606,071
Total consolidated liabilities						<u><u>603,099</u></u>
						<u><u>50,209,170</u></u>

Capital expenditure

Depreciation	20,875	38	4,051	19	-	-
Net interest income suspended	11,921	531	2,510	93	-	-
Loan loss and other provision	27,148	-	-	-	-	-
	25,621	-	84	-	-	-

9. Securities held-for-trading

	Group	
	As at	As at
	30/09/05	30/06/05
	RM '000	RM '000
<u>At Fair Value</u>		
Malaysian Government Treasury Bills	109,212	107,763
Malaysian Government Securities	41,622	15,692
Bank Negara Malaysia bills	83,814	1,427
Cagamas bonds	241,297	206,652
Bankers' acceptances and Islamic accepted bills	158,239	538,530
Negotiable instruments of deposit	1,013,020	1,670,101
Foreign currency bonds	59,274	1,894
	1,706,478	2,542,059
Quoted securities :		
Shares in Malaysia	305,249	257,597
Unquoted securities :		
Private debt securities	123,274	84,696
	2,135,001	2,884,352

10. Securities available-for-sale

	Group	
	As at	As at
	30/09/05	30/06/05
	RM '000	RM '000
<u>At Fair Value</u>		
HK Government Exchange Fund	23,856	23,917
Government Treasury Bills	211,034	205,515
Malaysian Government Securities	2,173,411	25,293
Cagamas bonds	1,318,225	1,181,961
Foreign currency bonds	1,096,653	826,974
	4,823,179	2,263,660
Quoted securities :		
Shares and convertible loan stocks	81,496	64,108
Shares outside Malaysia	272	314
Unquoted securities :		
Private debt securities	946,442	707,217
	5,851,389	3,035,299

11. Securities held-to-maturity

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
<u>At Amortised Cost</u>		
Money market instruments :		
Malaysian Government securities	194,563	247,191
Malaysian Government investment certificates	256,232	253,797
Cagamas bonds	165,278	165,323
Foreign currency bonds	11,300	11,486
Foreign currency NCD	5,759	6,094
Khazanah bonds	9,027	9,027
	<hr/>	<hr/>
	642,159	692,918
Unquoted securities :		
Shares	27,160	27,161
Private debt securities	760,402	622,000
Loan stocks	31,436	47,532
	<hr/>	<hr/>
Total securities held-to-maturity	1,461,157	1,389,611

12. Loans, advances and financing

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Overdrafts	3,018,772	3,107,337
Term loans :		
- Housing loans/financing	11,737,583	11,047,892
- Syndicated term loan/financing	1,656,453	1,743,830
- Hire purchase receivables	6,574,550	6,423,928
- Lease receivables	7,644	8,015
- Other term loans/financing	1,137,311	1,133,780
Credit/charge card receivables	963,134	943,832
Bills receivables	337,581	354,378
Trust receipts	169,310	192,550
Claims on customers under acceptance credits	1,901,578	2,002,016
Block discounting	36,382	37,137
Revolving credits	524,204	580,792
Policy and premium loans	384,372	358,943
Staff loans	122,951	129,145
Other loans/financing	74,196	80,348
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	28,646,021	28,143,923
Unearned interest and income	(1,331,416)	(1,323,989)
	<hr/>	<hr/>
	27,314,605	26,819,934
Allowance for bad and doubtful debts and financing :		
- general	(396,337)	(412,877)
- specific	(512,235)	(465,254)
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Net loans, advances and financing	<u>26,406,033</u>	<u>25,941,803</u>

12. Loans, advances and financing (continued)

12a By type of customer

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Domestic banking institutions	152	153
Domestic non-bank financial institutions	64,140	65,748
Domestic business enterprises		
- Small and medium enterprises	4,161,650	4,577,643
- Others	4,593,479	4,429,596
Government and statutory bodies	100,842	116,132
Individuals	17,412,568	16,617,003
Other domestic entities	41,583	49,385
Foreign entities	940,191	964,274
Gross loans, advances and financing	<u>27,314,605</u>	<u>26,819,934</u>

12b By interest/profit rate sensitivity

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Fixed rate		
- Housing loans/financing	2,687,875	2,641,038
- Hire purchase receivables	5,823,962	5,722,477
- Other fixed rate loan/financing	3,613,967	3,532,290
Variable rate		
- Base lending rate plus	11,821,023	11,615,037
- Cost plus	697,922	685,760
- Other variables rates	2,669,856	2,623,332
Gross loans, advances and financing	<u>27,314,605</u>	<u>26,819,934</u>

12. Loans, advances and financing (continued)

12c By economic sector

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Agriculture	253,083	245,910
Mining and quarrying	34,975	36,513
Manufacturing	2,242,242	2,326,718
Electricity, gas and water	30,201	33,408
Construction	757,216	826,888
Real Estate	311,208	298,259
Purchase of landed properties		
(of which : - residential	8,944,020	8,445,304
- non-residential)	2,548,150	2,460,381
General commerce	1,826,634	1,862,706
Transport, storage and communication	276,580	273,484
Finance, insurance and business services	459,872	559,196
Purchase of securities	772,492	838,974
Purchase of transport vehicles	4,978,948	4,861,113
Consumption credit	2,131,562	2,119,050
Others	1,747,422	1,632,030
Gross loans, advances and financing	27,314,605	26,819,934

12. Loans, advances and financing (continued)

12d Non-performing loans by sector

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Agriculture	3,756	4,253
Mining and quarrying	3,273	2,965
Manufacturing	287,943	279,311
Electricity, gas and water	654	685
Construction	255,818	265,392
Real estate	33,599	34,291
Purchase of landed properties		
(of which : - residential	351,654	352,820
- non-residential)	120,127	126,539
General commerce	113,447	121,484
Transport, storage and communication	46,456	48,071
Finance, insurance and business services	141,715	140,662
Purchase of securities	26,049	29,163
Purchase of transport vehicles	136,142	132,400
Consumption credit	76,731	77,785
Others	45,499	41,862
Gross loans, advances and financing	<u>1,642,863</u>	<u>1,657,683</u>

12. Loans, advances and financing (continued)

12e Movements in non-performing loans, advances and financing (“NPL”) are as follows:

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
At beginning	1,657,683	2,148,297
Non-performing during the period/year	771,679	2,634,676
Reclassified as performing	(649,085)	(1,971,777)
Amount written back in respect of recoveries	(119,889)	(549,807)
Amount written off	(17,027)	(605,478)
Exchange differences	(498)	1,772
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Closing balance	1,642,863	1,657,683
Specific allowance	(512,235)	(465,254)
Net non-performing loans, advances and financing	<hr/> <u>1,130,628</u>	<hr/> <u>1,192,429</u>
 Net NPL as a % of gross loans, advances and financing less specific allowance	 <hr/> <u>4.3%</u>	 <hr/> <u>4.6%</u>

12. Loans, advances and financing (continued)

12f Movements in allowance for bad and doubtful debts (and financing) accounts are as follows:

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
<u>General Allowance</u>		
At beginning	412,877	366,955
Net provisions made during the period/year	(16,394)	45,697
Exchange differences	(146)	225
Closing balance	396,337	412,877
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%
<u>Specific Allowance</u>		
At beginning	465,254	868,043
Allowance made during the period/year	85,850	304,207
Amount written back in respect of recoveries	(20,826)	(101,309)
Amount written off	(17,605)	(605,675)
Amount transferred to provision for diminution in value	-	(904)
Exchange differences	(438)	892
Closing balance	512,235	465,254

13. Other receivables

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Interest/Income receivable	179,686	162,327
Other debtors, deposits and prepayments	321,327	232,230
Foreclosed properties	3,159	3,159
	504,172	397,716

14. Property, plant and equipment

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

15. Deposits from customers

Deposits from Customers

	Group	
	As at	As at
	30/09/05	30/06/05
	RM '000	RM '000
Fixed deposits	31,394,475	28,661,901
Negotiable instruments of deposit	1,355,962	1,095,999
Demand deposits	4,055,940	3,717,928
Savings deposits	6,125,469	6,100,599
Other	165,113	146,029
	43,096,959	39,722,456

15a The maturity structure of fixed deposits and negotiable instruments :

	Group	
	As at	As at
	30/09/05	30/06/05
	RM '000	RM '000
One year or less (short term)	32,671,992	29,684,046
More than one year (medium/long term)	78,445	73,854
	32,750,437	29,757,900

15b The deposits from customer are sourced from the following types of customers:

	Group	
	As at	As at
	30/09/05	30/06/05
	RM '000	RM '000
Government and statutory bodies	941,751	318,002
Business enterprises	15,349,716	12,940,007
Individuals	25,433,729	25,241,952
Others	1,371,763	1,222,495
	43,096,959	39,722,456

16. Deposits and placements of banks and other financial institutions

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Licensed banks	2,020,038	2,066,162
The maturity structure of fixed deposits and negotiable instruments :		
One year or less (short term)	2,020,038	2,066,162
More than one year (medium/long term)	-	-
	<u>2,020,038</u>	<u>2,066,162</u>

17. Floating Rate Certificate of Deposits

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Floating rate certificate of deposits - USD110 million	414,562	417,916
	<u>414,562</u>	<u>417,916</u>

The floating rate certificate of deposits carries a floating interest rate at a spread above London Interbank Offered Rate ("LIBOR") and it will mature on 20 March 2006.

18. Subordinated Bonds

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Subordinated Bonds		
- USD200 million	753,900	-
	753,900	-
	753,900	-

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 5 Year 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 on 3 August 2010 or 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 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.

19. Payables and other liabilities

	Group	
	As at 30/09/05 RM '000	As at 30/06/05 RM '000
Trade payables	242,952	190,794
Amount due to related companies	1,562	1,593
Other payables and accrued liabilities	257,061	472,702
Interest payable	644,914	307,072
Post employment benefits obligations		
- defined contribution plan	6,040	6,140
	1,152,529	978,301
	1,152,529	978,301

20. Interest income

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	RM '000	RM '000	RM '000	RM '000
Loan, advances and financing				
- Interest income other than recoveries from NPLs	287,990	309,910	287,990	309,910
- recoveries from NPLs	44,280	38,007	44,280	38,007
Money at call and deposit placements with financial institutions	96,559	106,286	96,559	106,286
Securities purchased under resale agreement	72,133	-	72,133	-
Securities held-for-trading	23,901	27,877	23,901	27,877
Securities available-for-sale	35,617	42,149	35,617	42,149
Securities held-to-maturity	7,966	9,308	7,966	9,308
Others	6,873	1,582	6,873	1,582
	<u>575,319</u>	<u>535,119</u>	<u>575,319</u>	<u>535,119</u>
Amortisation of premium less accretion of discount	(3,052)	(9,372)	(3,052)	(9,372)
Interest suspended	(4,008)	(1,527)	(4,008)	(1,527)
	<u>568,259</u>	<u>524,220</u>	<u>568,259</u>	<u>524,220</u>

21. Interest expense

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	RM '000	RM '000	RM '000	RM '000
Deposits and placements of banks and other financial institutions	76,284	42,451	76,284	42,451
Deposits from customers	244,878	233,344	244,878	233,344
Subordinated bonds	6,547	-	6,547	-
Others	6,300	7,267	6,300	7,267
	<u>334,009</u>	<u>283,062</u>	<u>334,009</u>	<u>283,062</u>

22. Other operating income

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	RM '000	RM '000	RM '000	RM '000
(a) Net income from Insurance Business:	16,026	9,893	16,026	9,893
(b) Net brokerage and commissions from Stockbroking Business:	5,336	6,339	5,336	6,339
(c) Net unit trust and asset management income:	3,098	5,334	3,098	5,334
(d) Fee income:				
Management fees	416	234	416	234
Commissions	18,137	16,727	18,137	16,727
Service charges and fees	6,695	5,767	6,695	5,767
Guarantee fees	1,714	1,745	1,714	1,745
Other fee income	39,355	36,380	39,355	36,380
	66,316	60,853	66,316	60,853
(e) Gain/(loss) arising from sale of securities:				
Net gain from sale of securities held-for-trading	4,900	2,574	4,900	2,574
Net gain from sale of securities available-for-sale	7,047	15,841	7,047	15,841
Net gain from sale of securities held-to-maturity	4,042	-	4,042	-
	15,989	18,415	15,989	18,415
(f) Gross dividend income from:				
Securities held-for-trading	290	353	290	353
Securities available-for-sale	3,475	1,526	3,475	1,526
	3,765	1,879	3,765	1,879
(g) Unrealised gain/(losses) on revaluation of securities held-for-trading and derivatives	(2,014)	(7,610)	(2,014)	(7,610)
(h) Other income:				
Foreign exchange gain/(loss)	21,080	7,430	21,080	7,430
Rental income	104	51	104	51
Gain/(loss) on disposal of property and equipment	170	596	170	596
Others	3,308	1,422	3,308	1,422
	24,662	9,499	24,662	9,499
Total other operating income	133,178	104,602	133,178	104,602

23. Other operating expenses

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	RM '000	RM '000	RM '000	RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	79,784	76,514	79,784	76,514
- Others	6,652	8,059	6,652	8,059
<u>Establishment costs</u>				
- Depreciation	17,722	13,997	17,722	13,997
- Rental	8,999	8,310	8,999	8,310
- Information technology expenses	7,537	4,997	7,537	4,997
- Others	10,228	9,397	10,228	9,397
<u>Marketing expenses</u>				
- Advertisement and publicity	8,611	5,007	8,611	5,007
- Handling fees	5,518	3,707	5,518	3,707
- Others	5,947	4,952	5,947	4,952
<u>Administration and general expenses</u>				
- Teletransmission expenses	2,090	1,468	2,090	1,468
- Stationery & printing	3,341	4,680	3,341	4,680
- Others	15,230	10,587	15,230	10,587
	<u>171,659</u>	<u>151,675</u>	<u>171,659</u>	<u>151,675</u>

24. Allowance for losses on loans, advances and financing

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	RM '000	RM '000	RM '000	RM '000
Allowance for bad and doubtful debts and financing:				
- general allowance (net)	(16,394)	8,327	(16,394)	8,327
- specific allowance	85,802	66,197	85,802	66,197
- specific allowance written back	(21,558)	(10,140)	(21,558)	(10,140)
Bad debts and financing written off	2,197	1,499	2,197	1,499
Bad debts and financing recovered	(20,039)	(40,262)	(20,039)	(40,262)
	<u>30,008</u>	<u>25,621</u>	<u>30,008</u>	<u>25,621</u>

25. Capital adequacy

BNM guidelines require the Banking and Finance subsidiary companies 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 subsidiary company as at 30 September 2005 and 30 June 2005 met the minimum requirement.

	As at 30/09/2005 RM '000	As at 30/06/2005 RM '000
<u>Components of Tier - 1 and Tier - 2 Capital</u>		
Tier -1 capital		
Paid up share capital	1,580,107	1,580,107
Share premium	539,664	539,664
Retained profit, as restated	1,035,953	1,035,953
As previously stated	-	1,040,133
Prior year adjustments	-	(4,180)
Other Reserves	1,515,369	1,515,369
Less :Treasury Shares	(277,554)	(274,375)
Less : Deferred Tax	(115,521)	(115,522)
As previously stated	-	(115,204)
Prior year adjustments	-	(318)
Total tier 1 capital	4,278,016	4,281,196
Tier - 2 capital		
General provision	396,337	412,817
Subordinated bonds	753,900	-
Total tier 2 capital	1,150,237	412,817
Total capital	5,428,253	4,694,013
Less: Investment in subsidiary companies	-	-
Total capital base	5,428,253	4,694,013
<u>Before deducting proposed dividends</u>		
Core Capital Ratio	15.06%	15.84%
Risk-weighted Capital Ratio	19.11%	17.37%
<u>After deducting proposed dividends</u>		
Core Capital Ratio	14.46%	15.21%
Risk-weighted Capital Ratio	18.51%	16.74%

26. Events after Balance Sheet date

There were no material events subsequent to the end of the financial period ended 30 September 2005.

27. 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 25 March 2005, the Company had placed Heritage Vest (M) Sdn Bhd, a wholly-owned subsidiary of the Company, under member's voluntary liquidation.
- On 17 June 2005, the Company had placed Hong Leong Equities (Hong Kong) Limited, a wholly-owned subsidiary of the Company, under member's voluntary liquidation.
- The Bank had, on 28 June 2005, announced that Minister of Finance had granted an Islamic banking licence to Hong Leong Islamic Bank Berhad ("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 has 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"). The approval of the Foreign Investment Committee for the Proposed Disposal has been obtained and the Proposed Disposal was completed on 25 August 2005.
- On 16 November 2005, the Company had acquired the entire equity interest of Natcap Portfolio Sdn Bhd comprising 2 ordinary shares of RM1.00 each for cash at par.

28. 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:

	As at 30/09/2005			As at 30/06/2005		
	Principal Amount RM '000	Credit Equivalent RM '000	Risk Weighted Amount RM '000	Principal Amount RM '000	Credit Equivalent RM '000	Risk Weighted Amount RM '000
<u>The Banking Group</u>						
Direct credit substitutes	175,078	175,078	175,078	161,538	161,538	161,538
Transaction-related contingent items	283,224	141,613	141,613	308,963	154,482	154,481
Short-term self liquidating trade-related contingencies	399,161	79,832	79,832	469,936	93,987	93,188
Irrevocable commitments to extend credit :						
-maturity more than 1 year	4,382,740	2,191,370	2,191,370	4,122,753	2,061,377	2,061,377
-maturity less than 1 year	9,644,502	-	-	9,181,257	-	-
Foreign exchange related contracts	6,780,862	114,041	54,759	7,639,221	158,934	80,269
Interest rate related contracts	16,459,991	106,916	53,458	16,389,047	74,294	37,147
Equity related contracts	110,000	1,650	-	106,922	1,604	-
Miscellaneous	562	-	-	694	-	-
Total	<u>38,236,120</u>	<u>2,810,500</u>	<u>2,696,110</u>	<u>38,380,331</u>	<u>2,706,216</u>	<u>2,588,000</u>

(b) Other commitments and contingencies – unsecured

HLG Unit Trust Bhd, a wholly-owned subsidiary company of the stockbroking division, 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 September 2005.

29. 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.

30. Interest/Profit rate risk

The Banking Group As at 30 September 2005	← Non-trading Book →						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
Assets									
Cash and short term funds	8,712,356	-	-	-	-	529,086	-	9,241,442	2.8
Deposits & placement with banks & other financial institutions	-	5,221,968	902,243	-	-	-	-	6,124,211	2.8
Securities purchased resale agreements	2,802,580	5,169,917	2,048,951	-	-	-	-	10,021,448	2.8
Securities held-for-trading	-	-	-	-	-	-	1,837,174	1,837,174	2.9
Securities available-for-sale	22,297	189,297	32,797	3,902,016	812,662	52,248	-	5,011,317	4.2
Securities held-to-maturity	16,157	120,843	315,441	437,674	13,340	12,600	-	916,055	6.5
Loans, advances and financing									
- performing	5,992,160	1,185,567	1,329,196	5,338,417	11,826,205	-	-	25,671,545	6.4
- non-performing	-	-	-	-	-	350,018	-	350,018	-
Other assets	-	-	-	-	-	318,347	-	318,347	-
Statutory deposits with Bank Negara	-	-	-	-	-	732,948	-	732,948	-
Property, plant and equipment	-	-	-	-	-	253,889	-	253,889	-
Deferred tax assets	-	-	-	-	-	108,629	-	108,629	-
Total assets	17,545,550	11,887,592	4,628,628	9,678,107	12,652,207	2,357,765	1,837,174	60,587,023	
Liabilities									
Deposits from customers	20,534,030	7,713,371	11,002,402	91,389	-	3,755,767	-	43,096,959	2.6
Deposits & placement of banks & other financial institutions	704,084	1,164,994	150,780	-	-	180	-	2,020,038	2.7
Obligations on securities sold under repurchase agreements	8,016,931	206,675	-	-	-	-	-	8,223,606	2.7
Bills and acceptance payable	201,976	195,962	3,912	-	-	301,900	-	703,750	-
Floating rate certificate of deposits	-	-	414,562	-	-	-	-	414,562	3.5
Other liabilities	-	-	-	-	-	793,974	-	793,974	-
Subordinated Bonds	-	-	-	-	753,900	-	-	753,900	5.2
Provision for tax	-	-	-	-	-	41,151	-	41,151	-
Total liabilities	29,457,021	9,281,002	11,571,656	91,389	753,900	4,892,972	-	56,047,940	
Shareholders' funds	-	-	-	-	-	4,539,083	-	4,539,083	-
Total liabilities and shareholders' funds	29,457,021	9,281,002	11,571,656	91,389	753,900	9,432,055	-	60,587,023	
On-balance sheet profit sensitivity gap	(11,911,471)	2,606,590	(6,943,028)	9,586,718	11,898,307	(7,074,290)	1,837,174	-	-
Off-balance sheet profit sensitivity gap	120,000	158,000	70,000	450,000	928,000	(1,726,000)	-	-	-
Total profit sensitivity gap	(11,791,471)	2,764,590	(6,873,028)	10,036,718	12,826,307	(8,800,290)	1,837,174	-	

30. Interest/Profit rate risk (continued)

The Banking Group As at 30 June 2005	Non-trading Book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
Assets									
Cash and short term funds	10,627,664	-	-	-	-	496,914	-	11,124,578	2.8
Deposits & placement with banks & other financial institutions	-	3,510,327	27,287	-	-	-	-	3,537,614	2.8
Securities purchased resale agreements	3,015,891	4,381,237	2,531,364	-	-	-	-	9,928,492	2.8
Securities held-for-trading	-	-	-	-	-	-	2,633,939	2,633,939	3.1
Securities available-for-sale	70,182	212,181	171,798	1,888,376	2,804	4,777	-	2,350,118	4.3
Securities held-to-maturity	7,302	40,944	91,142	868,261	11,890	2,292	-	1,021,831	6.1
Loans, advances and financing									
- performing	13,315,639	1,474,976	2,225,146	4,820,504	2,981,738	-	-	24,818,003	6.5
- non-performing	-	-	-	-	-	764,732	-	764,732	-
Other assets	-	-	-	-	-	242,109	-	242,109	-
Statutory deposits with Bank Negara	-	-	-	-	-	839,600	-	839,600	-
Property, plant and equipment	-	-	-	-	-	244,392	-	244,392	-
Deferred tax assets	-	-	-	-	-	114,886	-	114,886	-
Total assets	27,036,678	9,619,665	5,046,737	7,577,141	2,996,432	2,709,702	2,633,939	57,620,294	
Liabilities									
Deposits from customers	17,494,050	6,478,737	11,628,514	73,853	-	4,241,336	-	39,916,490	2.7
Deposits & placement of banks & other financial institutions	1,788,789	100,000	177,000	-	-	373	-	2,066,162	2.6
Obligations on securities sold under repurchase agreements	8,961,131	560,465	-	-	-	-	-	9,521,596	2.6
Bills and acceptance payable	68,133	87,127	88,399	-	-	325,236	-	568,895	3.1
Floating rate certificate of deposits	-	-	417,916	-	-	-	-	417,916	3.5
Other liabilities	-	-	-	-	-	695,178	-	695,178	-
Provision for tax	-	-	-	-	-	36,520	-	36,520	-
Total liabilities	28,312,103	7,226,329	12,311,829	73,853	-	5,298,643	-	53,222,757	
Shareholders' funds						4,397,537		4,397,537	
Total liabilities and shareholders' funds	28,312,103	7,226,329	12,311,829	73,853	-	9,696,180	-	57,620,294	
On-balance sheet profit sensitivity gap	(1,275,425)	2,393,336	(7,265,092)	7,503,288	2,996,432	(6,986,478)	2,633,939	-	
Off-balance sheet profit sensitivity gap	240,000	(1,920,645)	(3,476,507)	(7,551,250)	17,402	-	-	-	
Total profit sensitivity gap	(1,035,425)	472,691	(10,741,599)	(47,962)	3,013,834	(6,986,478)	2,633,939	-	

31. Operations of Islamic Banking

31a Unaudited Balance Sheets as at 30 September 2005

	Group	
	As at 30/09/2005 RM'000	As at 30/06/2005 RM'000
<u>ASSETS</u>		
Cash and short-term funds	200,000	1,461,250
Deposits and placements with banks and other financial institutions	1,321,876	191,396
Securities - Held for trading	418,769	300,339
Securities - Available for sale	110,455	373,406
Securities - Held to maturity	374,744	-
Financing, advances and other financing	3,595,257	3,402,467
Other assets	108,372	17,563
Statutory deposits with Bank Negara Malaysia	124,748	51,150
Property, plant and equipment	1,021	105
Deferred tax assets	18,723	18,723
Total Assets	<u>6,273,965</u>	<u>5,816,399</u>
<u>LIABILITIES AND SHAREHOLDERS' FUNDS</u>		
Deposits from customers	4,212,767	4,889,360
Deposits and placements of banks and other financial institutions	1,028,104	91,750
Obligations on securities sold under repurchase agreements	366,506	246,600
Bills and acceptance payable	572	562
Other liabilities	148,140	125,472
Provision for taxation	4,822	38,373
Total Liabilities	<u>5,760,911</u>	<u>5,392,117</u>
Islamic banking capital fund	500,000	310,127
Reserves	13,054	114,155
Islamic Banking Funds	<u>513,054</u>	<u>424,282</u>
Total Liabilities and Islamic Banking Funds	<u>6,273,965</u>	<u>5,816,399</u>
<u>COMMITMENTS AND CONTINGENCIES</u>	<u>350,248</u>	<u>344,662</u>

31. Operations of Islamic Banking (continued)

31b Unaudited Income Statements for the 1st Quarter and Three Months Ended 30 September 2005

	1st Quarter Ended		Cumulative Three Months Ended	
	30/09/2005	30/09/2004	30/09/2005	30/09/2004
	RM'000	RM'000	RM'000	RM'000
Group				
Income derived from investment of deposits' funds and others	67,967	46,794	67,967	46,794
Income derived from investment of shareholders' funds	6,658	3,704	6,658	3,704
Allowance for losses on financing	(2,253)	(4,514)	(2,253)	(4,514)
Provision for commitments and contingencies				
Impairment loss	-	-	-	-
Profit equalisation reserve	-	(4,154)	-	(4,154)
Other expenses directly attributable to the investment of the deposits and shareholders' funds	-	-	-	-
Total distributable income	72,372	41,830	72,372	41,830
Income attributable to deposits	(34,601)	(23,744)	(34,601)	(23,744)
Total net income	37,771	18,086	37,771	18,086
Other operating expenses	(20,658)	(2,187)	(20,658)	(2,187)
Profit before taxation and zakat	17,113	15,899	17,113	15,899
Zakat	(15)	-	(15)	-
Taxation	(4,822)	(527)	(4,822)	(527)
Profit after taxation and zakat	12,276	15,372	12,276	15,372
Profit attributable to shareholders	12,276	15,372	12,276	15,372
Earnings per share - basic (sen)	2.46	4.96	2.46	4.96
Earnings per share - fully diluted (sen)	2.46	4.96	2.46	4.96

31. Operations of Islamic Banking (continued)

31c Financing, advances and other financing

(i) By type

	As at 30/09/2005 RM'000	Group As at 30/06/2005 RM'000
Cash line	10,009	10,056
Term financing		-
- House financing	1,486,799	1,487,953
- Hire purchase receivable	3,119,209	2,898,064
Claims on customers under acceptance credits	13,030	17,347
Staff financing	116	126
Revolving credit	3,351	3,050
Others	56	55
	<u>4,632,570</u>	<u>4,416,651</u>
Less: Unearned income	(966,309)	(946,113)
	3,666,261	3,470,538
Less: Allowance for bad and doubtful financing		
- General	(54,817)	(55,009)
- Specific	(16,187)	(13,063)
	<u>(71,004)</u>	<u>(68,072)</u>
Total net financing, advances and other financing	<u><u>3,595,257</u></u>	<u><u>3,402,466</u></u>

(ii) By contract

	As at 30/09/2005 RM'000	Group As at 30/06/2005 RM'000
Bai' Bithaman Ajil (deferred payment sale)	931,856	936,438
Ijarah Muntahia Bittamlik/AITAB (lease ended with ownership)	2,721,312	2,523,474
Murabahah (cost-plus)	13,093	21,314
	<u>3,666,261</u>	<u>3,481,226</u>

31. Operations of Islamic Banking (continued)

31c Financing, advances and other financing (continued)

Non-performing financing

(i) Movements in non-performing financing, advances and other financing

	Group	
	As at 30/09/2005 RM'000	As at 30/06/2005 RM'000
At beginning	70,437	97,701
Amount transferred from HLF	-	-
Amount transferred to HLIB	-	-
Classified as non-performing during the period	61,163	207,494
Reclassified as performing	(49,741)	(178,589)
Amount recovered	(8,018)	(31,759)
Amount written off	-	(24,410)
At end	<u>73,841</u>	<u>70,437</u>
Net non-performing financing, advances and other financing	<u>57,654</u>	<u>57,374</u>
Ratio of net non-performing financing, advances and other financing to total net financing, advances and other financing	<u>1.6%</u>	<u>1.7%</u>

31. Operations of Islamic Banking (continued)

31c Financing, advances and other financing (continued)

(ii) Movements in allowance for bad and doubtful financing

	Group	
	As at 30/09/2005 RM'000	As at 30/06/2005 RM'000
General allowance		
At beginning	55,009	38,801
Amount transferred from HLF	-	-
Amount transferred to HLIB	-	-
Allowance made / (written back)	(192)	16,208
At end	<u>54,817</u>	<u>55,009</u>
As % of gross financing, advances and other financing less specific allowance	<u>1.5%</u>	<u>1.6%</u>
Specific allowance		
At beginning	13,063	30,125
Amount transferred from HLF	-	-
Amount transferred to HLIB	-	-
Allowance made	4,446	15,805
Amount recovered	(1,255)	(6,160)
Amount written off	(67)	(26,707)
At end	<u>16,187</u>	<u>13,063</u>

31. Operations of Islamic Banking (continued)

31d Deposits from customer

By type of deposit

	Group	
	As at 30/09/2005 RM'000	As at 30/06/2005 RM'000
Non-Mudharabah		
Demand deposits	105,927	117,778
Savings deposits	540,807	529,808
Others	233	233
	<u>646,967</u>	<u>647,819</u>
Mudharabah		
General investment deposits	3,526,077	4,241,541
Negotiable instruments of deposits	39,723	-
	<u>3,565,800</u>	<u>4,241,541</u>
	<u><u>4,212,767</u></u>	<u><u>4,889,360</u></u>

32. Change in Accounting Policies and Prior Year Adjustments

a) Change in Accounting Policies

For the 1st quarter ended 30 September 2005, the Group has adopted the revised BNM/GP8 which have resulted in the following new accounting policies:

- 1) The holdings of the securities portfolio of the Group are segregated based on the following categories and valuation methods :

- i) Securities held-for-trading

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statements.

- ii) Securities held-to-maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. The securities held-to-maturity are measured at accreted/amortised cost based on effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statements.

- iii) Securities available-for-sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at amortised cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statements.

- 2) Derivatives financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of the derivatives is recognised in the income statements unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are then released to the income statement in the periods when the hedged item affects the income statement.

- 3) Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing shall be reversed out of income and set-off against the accrued interest receivable account in the balance sheet. Thereafter, the interest accrued on the non-performing loans shall be recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.

b) Prior Year Adjustments

The following comparative figures have been restated for the effects of adopting the above change in accounting policies:

	As restated	As previously
	RM '000	reported
		RM '000
(i) Balance sheet as at 30 June 2005		
Dealing securities	-	2,890,344
Investments	-	4,605,744
Securities held-for-trading	2,884,352	-
Securities available-for-sale	3,035,299	-
Securities held-to-maturity	1,389,611	-
Investment properties	190,057	-
Other receivables	397,716	403,990
Deferred tax asset	116,646	116,964
Reserves	2,168,955	2,171,047
Minority interest	1,685,166	1,686,435

b) Prior Year Adjustments (continued)

	As restated RM '000	As previously reported RM '000
(ii) Income statement for the 1st quarter ended 30 September 2004		
Other operating income	104,602	106,787
Net income	370,204	372,389
Operating profit	218,529	220,714
Profit before tax expense and zakat	192,763	194,948
Tax expense and zakat	(56,576)	(57,188)
Profit after tax expense	136,187	137,760
Minority interest	(56,306)	(56,932)
Net profit for the period	<u>79,881</u>	<u>80,828</u>
Earnings per share		
Basic (sen)	7.7	7.8
Fully diluted (sen)	7.7	7.8

33. Financial impact on non-adoption of revised BNM/GP8 by the Insurance and Stockbroking subsidiaries

The Insurance and Stockbroking subsidiaries are not required to adopt the revised BNM/GP8 and the financial impact for not adopting are as follows:

	Group RM '000
(i) Balance sheet as at 30 June 2005	
Securities held-for-trading	18,832
Securities available-for-sale	7,503
Insurance funds	11,492
Deferred tax asset	5,342
Reserves	6,738
Minority interest	<u>731</u>
(ii) Income statement for the 1st quarter ended 30 September 2005	
Other operating income	1,309
Net income	1,309
Operating profit	1,309
Profit before tax expense and zakat	1,309
Tax expense and zakat	(367)
Profit after tax expense	943
Minority interest	(91)
Net profit for the period	<u>851</u>

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 / financial year-to-date against previous corresponding period

The Group achieved profit before tax of RM202.5 million for the quarter ended 30 September 2005 as compared to RM192.8 million in the previous corresponding quarter ended 30 September 2004, an increase of RM9.7 million or 5%. This was mainly due to higher profit from three operating divisions of the Group.

For the current quarter ended 30 September 2005, the Banking division recorded a profit before tax of RM197.5 million as compared to RM195.0 million in the previous corresponding quarter ended 30 September 2004, an increase of RM2.5 million or 1%. Conventional other operating income increased by RM20.6 million whilst Islamic Banking income increased by RM15.3 million. The favourable variance was partially offset by a fall in net interest income, higher operating expenses and higher loan loss provisions.

The Insurance division registered a profit before tax of RM7.4 million in the current quarter as compared to RM0.9 million in the previous corresponding quarter, an increase of RM6.5 million. The increase was mainly contributed by higher underwriting profits and higher investment income in the current financial quarter.

The Stockbroking and Asset Management division registered a profit before tax of RM4.6 million as compared to RM3.6 million in the previous corresponding quarter. The profit before tax was higher in the current financial quarter under review due to lower direct cost and overhead expenses compared to previous financial quarter.

2. Review of performance of current quarter against preceding quarter

For the current financial quarter, the Group recorded a profit before tax of RM202.5 million as compared to RM227.2 million in the preceding financial quarter. The lower profit before tax in the financial quarter was due to lower profit from Insurance division.

For the quarter ended 30 September 2005, the Banking division recorded a profit before tax of RM197.5 million as compared to RM155.0 million in the preceding quarter, an increase of RM42.5 million. The better performance was attributable to continued growth in other operating income as well as lower loan loss provision.

The Insurance division registered a lower profit before tax of RM7.4 million as compared to RM75.2 million in the preceding financial quarter. The decrease is mainly contributed by lower underwriting profits and lower investment income. In addition, the higher profit before taxation in the preceding financial quarter was due to surplus transferred from Life Fund which amounted to RM45.0 million.

The Stockbroking and Asset Management division registered a higher profit before tax of RM4.6 million as compared to RM0.7 million in the preceding financial quarter. The higher profit before taxation in the financial quarter was mainly due to the reduction of direct cost and overhead expenses.

3. Current financial year prospects

Barring unforeseen circumstances, the Group is expected to perform satisfactorily for the remaining part of the 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 period ended 30 September 2005:

	Group Current Quarter Ended		Group Cumulative Quarter Ended	
	30/09/2005	30/09/2004	30/09/2005	30/09/2004
	RM'000	RM'000	RM'000	RM'000
Tax expenses				
Malaysian – current	(53,417)	(59,899)	(53,417)	(59,899)
Overseas – current	(165)	-	(165)	-
Deferred tax expenses				
Malaysian – current	(4,552)	3,323	(4,552)	3,323
	(58,134)	(56,576)	(58,134)	(57,443)
Prior year over/(under) provision - Malaysian	-	-	-	-
	(58,134)	(56,576)	(58,134)	(56,576)

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 full Group tax relief in respect of losses incurred by HLC 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 as at the date of this report other than mentioned below:

The Company had, on 8 November 2005, announced that the shareholders of the Company had approved the establishment of a new Executive Share Option Scheme ("Scheme") of up to 15% of the issued and paid-up ordinary share capital of the Company ("Proposal").

The Proposal is subject to the approval being obtained from Bursa Malaysia Securities Berhad for the listing of and quotation for the new ordinary shares of the Company to be issued pursuant to the exercise of options under the Scheme.

9. Group borrowings

The Group borrowings include:

	As at 30/09/05 RM'000	As at 30/06/05 RM'000
Short Term – unsecured	177,000	201,000
Long Term – unsecured	270,000	269,098
Total	447,000	470,098

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
RM'000							
Foreign exchange related contracts							
- forwards	3,828,150	2,792,832	760,635	171,881	102,441	391	-
- swaps	1,828,724	609,678	555,609	578,923	84,514	-	-
- options	1,123,988	525,085	429,773	132,807	36,323	-	-
Interest rate related contracts							
- forwards	-	-	-	-	-	-	-
- futures	11,718,580	39,580	1,449,000	1,196,000	2,270,000	6,764,000	-
- swaps	4,741,412	-	-	58,595	720,000	3,941,715	21,102
Total	23,240,854	3,967,175	3,195,017	2,138,206	3,213,248	10,706,106	21,102

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 amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at the end of the financial period, the amount of contracts which were not hedged and hence, exposed to foreign exchange and interest rate market risk were RM300,212,000 (FYE June 2005: RM552,922,000) and RM16,459,991,000 (FYE June 2005: RM16,389,047,000) respectively.

Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Group has a gain position. As at the end of the financial period, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM64,325,000 (FYE June 2005: RM69,528,000). This amount will increase or decrease 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, there is no pending material litigation.

12. HLC Dividends

An interim dividend of 8 sen per share less income tax of 28% has been proposed by the Company during the current quarter.

- (a) Amount per share : 8 sen per share less income tax of 28%
- (b) Previous corresponding quarter : 8 sen per share, less income tax of 28%
- (c) Entitlement date : 19 December 2005
- (d) Payment date : 30 December 2005

Total proposed HLC dividend for the current quarter is 8 sen per share less income tax of 28%.

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 period.

	Group		Group	
	Current Quarter Ended		Financial Period Ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	RM'000	RM'000	RM'000	RM'000
Weighted Average Number Of Ordinary Shares				
Weighted average number of ordinary shares	1,040,722	1,040,722	1,040,722	1,040,722
Net profit attributable to shareholders of the company	90,303	79,881	90,303	79,881
Basic earnings per share (Sen)	8.7	7.7	8.7	7.7

(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 Period Ended	
	30/09/05	30/09/04	30/09/05	30/09/04
	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	1,040,722	1,040,722	1,040,722
Effect of share options	-	-	-	-
Weighted average number of ordinary shares (Diluted)	1,040,722	1,040,722	1,040,722	1,040,722
Net profit attributable to shareholders of the company	90,303	79,881	90,303	79,881
Fully diluted earnings per share (Sen)	8.7	7.7	8.7	7.7