

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**  
**(Formerly known as Hong Leong Credit Berhad)**  
**CONDENSED FINANCIAL STATEMENTS**  
**AUDITED CONSOLIDATED BALANCE SHEETS**  
**AS AT 30 JUNE 2006**

	As at 30/06/06 RM '000	As at 30/06/05 RM '000
<b>THE GROUP</b>		
<b><u>Assets</u></b>		
Cash and short term funds	14,762,999	11,580,037
Deposits and placements with financial institutions	1,608,526	3,647,037
Securities purchased under resale agreements	4,474,913	9,928,492
Securities held at fair value through profit or loss	3,907,027	2,676,676
Securities available-for-sale	7,760,401	3,537,656
Securities held-for-maturity	1,221,204	1,138,114
Loans, advances and financing	29,058,958	25,941,803
Trade receivables	183,130	189,279
Other receivables	802,304	669,228
Statutory deposits with Bank Negara Malaysia	881,524	839,600
Tax recoverable	14,442	21,030
Deferred tax asset	171,710	113,867
Property, plant and equipment	340,326	341,559
Goodwill arising from consolidation	487,422	471,383
<b>Total assets</b>	<b>65,674,886</b>	<b>61,095,761</b>
<b><u>Liabilities</u></b>		
Deposits from customers	44,198,417	39,722,456
Deposits and placements of banks and other financial institutions	2,796,260	2,066,162
Obligations on securities sold under repurchase agreements	6,850,498	8,612,248
Floating rate certificates of deposits	-	417,916
Bills and acceptances payable	546,209	568,895
Payables and other liabilities	1,347,670	1,063,261
Provision for claims	165,222	161,339
Provision for taxation	98,399	44,774
Bank loans and overdrafts	152,300	201,000
Subordinated notes	704,049	-
Long term liabilities	298,145	269,098
Insurance funds	3,404,775	3,063,389
<b>Total Liabilities</b>	<b>60,561,944</b>	<b>56,190,538</b>
<b><u>Financed by:</u></b>		
Share capital	1,040,722	1,040,722
Capital Reserves	1,189,950	1,101,513
Retained Profits	1,217,674	1,068,614
AFS Reserves	(42,471)	9,397
Treasury Shares held for ESOS	(15,238)	(1,916)
Shareholders' funds	3,390,637	3,218,330
Minority interest	1,722,305	1,686,893
	<b>5,112,942</b>	<b>4,905,223</b>
<b>Total liabilities and shareholders' funds</b>	<b>65,674,886</b>	<b>61,095,761</b>
<b>Commitment and Contingencies</b>	<b>48,109,341</b>	<b>38,398,210</b>

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**  
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**CONDENSED FINANCIAL STATEMENTS**  
**AUDITED CONSOLIDATED INCOME STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

<b>THE GROUP</b>	<b>Current quarter ended</b>		<b>Cumulative quarter ended</b>	
	<b>30/06/06</b>	<b>30/06/05</b>	<b>30/06/06</b>	<b>30/06/05</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
Interest income	646,351	540,496	2,401,469	2,125,390
Interest expense	(369,511)	(316,351)	(1,397,538)	(1,181,111)
Net interest income	276,840	224,145	1,003,931	944,279
Income from Islamic banking business	42,369	53,134	166,711	151,058
Non Interest Income	230,348	191,610	658,480	546,096
Net income	549,557	468,889	1,829,122	1,641,433
Overhead Expenses	(175,925)	(192,233)	(711,002)	(674,522)
Operating profit before provision	373,632	276,656	1,118,120	966,911
Allowance for losses on loans, advances and financing	(94,013)	(50,321)	(249,099)	(166,106)
Impairment loss	(6,531)	448	(9,709)	-
	273,088	226,783	859,312	800,805
Share of results of associated companies	-	-	-	(61)
Profit before taxation and zakat	273,088	226,783	859,312	800,744
Taxation	(70,516)	(61,642)	(243,198)	(224,612)
Zakat	(9)	-	(49)	(30)
Profit after taxation and zakat	202,563	165,141	616,065	576,102
Minority interests	(56,806)	(42,274)	(210,635)	(203,837)
Net profit for the period	145,757	122,867	405,430	372,265
Basic earnings per ordinary share (sen)	14.0	11.8	39.1	35.8
Diluted earnings per ordinary share (sen)	14.0	11.8	39.1	35.8

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**  
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**CONDENSED FINANCIAL STATEMENTS**  
**AUDITED COMPANY BALANCE SHEETS AS AT 30 JUNE 2006**

	As at 30/06/06 RM '000	As at 30/06/05 RM '000
<b><u>The Company</u></b>		
<b><u>Assets</u></b>		
Cash and short term funds	46,975	21,023
Loans, advances and financing	-	-
Other receivables	7,731	6,991
Tax recoverable	12,269	14,330
Investment in subsidiaries	2,049,249	2,047,233
Property, plant and equipment	1,657	1,523
<b>Total assets</b>	<b>2,117,881</b>	<b>2,091,100</b>
<b><u>Liabilities</u></b>		
Payables and other liabilities	20,800	10,800
Bank loans and overdrafts	120,300	161,000
Long term liabilities	298,145	269,098
<b>Total Liabilities</b>	<b>439,245</b>	<b>440,898</b>
<b><u>Financed by:</u></b>		
Share capital	1,040,722	1,040,722
Capital Reserves	89,700	89,700
Retained Profits	561,536	519,780
Treasury Shares held for ESOS	(13,322)	-
<b>Shareholders' funds</b>	<b>1,678,636</b>	<b>1,650,202</b>
<b>Total liabilities and shareholders' funds</b>	<b>2,117,881</b>	<b>2,091,100</b>
<b>Commitment and Contingencies</b>	<b>-</b>	<b>-</b>

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)****(Formerly known as Hong Leong Credit Berhad)****CONDENSED FINANCIAL STATEMENTS****AUDITED COMPANY INCOME STATEMENTS****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

<b>COMPANY</b>	<b>Current quarter ended</b>		<b>Cumulative quarter ended</b>	
	<b>30/06/06</b>	<b>30/06/05</b>	<b>30/06/06</b>	<b>30/06/05</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
Interest income	536	503	975	2,194
Interest expense	(5,404)	(5,391)	(21,589)	(23,149)
Net interest income	(4,868)	(4,888)	(20,614)	(20,955)
Non Interest Income	76,047	74,175	315,427	304,669
Net income	71,179	69,288	294,813	283,714
Overhead Expenses	(2,108)	(1,243)	(7,395)	(5,479)
Profit before taxation and zakat	69,071	68,045	287,418	278,235
Taxation	(14,721)	(19,327)	(81,644)	(78,623)
Zakat	-	-	-	-
Net profit for the period	54,350	48,718	205,774	199,612
Basic earnings per ordinary share (sen)	5.3	4.7	19.8	19.2
Diluted earnings per ordinary share (sen)	5.3	4.7	19.8	19.2

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**  
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**AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

THE GROUP FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006	Share Capital	Share Premium	Statutory Reserves	Other Capital Reserves & General Reserves	AFS Reserves	Exchange Fluctuation Reserves	Retained Profits	Treasury Shares	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Opening balance as at 1 July 2005	1,040,722	71,216	870,813	133,258	-	26,226	1,069,535	-	3,211,770
Prior year adjustment	-	-	-	-	9,397	-	(921)	(1,916)	6,560
Restated opening balance as at 1 July 2005	1,040,722	71,216	870,813	133,258	9,397	26,226	1,068,614	(1,916)	3,218,330
Net profit for financial period	-	-	-	-	-	-	405,430	-	405,430
Exchange fluctuation differences	-	-	-	-	-	(3,916)	-	-	(3,916)
Transfer to statutory reserves	-	-	92,353	-	-	-	(92,353)	-	-
Net fair value changes in available for sale securities	-	-	-	-	-	-	-	-	-
Less: Dividend paid	-	-	-	-	(51,868)	-	-	-	(51,868)
Less: Treasury Shares for ESOS	-	-	-	-	-	-	(164,017)	-	(164,017)
At 30 JUNE 2006	1,040,722	71,216	963,166	133,258	(42,471)	22,310	1,217,674	(13,322)	3,390,637

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005	Share Capital	Share Premium	Statutory Reserves	Other Capital Reserves & General Reserves	AFS Reserves	Exchange Fluctuation Reserves	Retained Profits	Treasury Shares	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Opening balance as at 1 July 2004	1,040,722	71,216	1,018,783	87,317	-	25,075	756,286	-	2,999,399
Prior year adjustment	-	-	-	-	1,038	-	2,052	-	3,090
Restated opening balance as at 1 July 2004	1,040,722	71,216	1,018,783	87,317	1,038	25,075	758,338	-	3,002,489
Net profit for financial period	-	-	-	-	-	-	372,265	-	372,265
Exchange fluctuation differences	-	-	-	-	-	1,151	-	-	1,151
Transfer from statutory reserves	-	-	(147,970)	-	-	-	147,970	-	-
Net fair value changes in available for sale securities	-	-	-	-	8,359	-	-	-	8,359
Less: Dividend paid	-	-	-	-	-	-	(164,018)	-	(164,018)
Less: Treasury Shares for ESOS	-	-	-	-	-	-	-	-	-
Realisation of merger reserve due to capital reduction of HLF	-	-	-	45,941	-	-	(45,941)	-	-
Less: Treasury Shares for ESOS	-	-	-	-	-	-	-	(1,916)	(1,916)
At 30 JUNE 2005	1,040,722	71,216	870,813	133,258	9,397	26,226	1,068,614	(1,916)	3,218,330

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**

(Formerly known as Hong Leong Credit Berhad)

**AUDITED COMPANY STATEMENT OF CHANGES IN EQUITY**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

	Share Capital RM '000	Share Premium RM '000	Statutory Reserves RM '000	Other Capital Reserves & General Reserves RM '000	AFS Reserves RM '000	Exchange Fluctuation Reserves RM '000	Retained Profits RM '000	Treasury Shares RM '000	Total RM '000
Opening balance as at 1 July 2005	1,040,722	71,216	-	18,484	-	-	519,780	-	1,650,202
Prior year adjustment	-	-	-	-	-	-	-	-	-
Restated opening balance as at 1 July 2005	1,040,722	71,216	-	18,484	-	-	519,780	-	1,650,202
Net profit for the year	-	-	-	-	-	-	205,774	-	205,774
Less: Dividend paid	-	-	-	-	-	-	(164,018)	-	(164,018)
Less: Treasury Shares held for ESOS	-	-	-	-	-	-	-	(13,322)	(13,322)
<b>At 30 JUNE 2006</b>	<b>1,040,722</b>	<b>71,216</b>	<b>-</b>	<b>18,484</b>	<b>-</b>	<b>-</b>	<b>561,536</b>	<b>(13,322)</b>	<b>1,678,636</b>

**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	AFS Reserves RM '000	Exchange Fluctuation Reserves RM '000	Retained Profits RM '000	Treasury Shares RM '000	Total RM '000
Opening balance as at 1 July 2004	1,040,722	71,216	-	18,484	-	-	484,186	-	1,614,608
Prior year adjustment	-	-	-	-	-	-	-	-	-
Restated opening balance as at 1 July 2004	1,040,722	71,216	-	18,484	-	-	484,186	-	1,614,608
Net profit for the year	-	-	-	-	-	-	199,612	-	199,612
Less: Dividend paid	-	-	-	-	-	-	(164,018)	-	(164,018)
Less: Treasury Shares held for ESOS	-	-	-	-	-	-	-	-	-
<b>At 30 JUNE 2005</b>	<b>1,040,722</b>	<b>71,216</b>	<b>-</b>	<b>18,484</b>	<b>-</b>	<b>-</b>	<b>519,780</b>	<b>-</b>	<b>1,650,202</b>

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**  
**(Formerly known as Hong Leong Credit Berhad)**  
**AUDITED CONSOLIDATED CASH FLOW STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

	30/06/06 RM '000	30/06/05 RM '000
<b>THE GROUP</b>		
<b>Cash flows from operating activities</b>		
Net profit before taxation	859,313	800,744
<b>Adjustments for :</b>		
Non-cash items	523,523	551,122
Operating profit before working capital changes	1,382,836	1,351,866
Increase in assets / receivables	2,724,199	(12,741,266)
Increase in liabilities / payables	3,290,251	7,796,664
	6,014,450	(4,944,602)
<b>Cash used in operations</b>	<b>7,397,286</b>	<b>(3,592,736)</b>
Income tax paid	(225,990)	(232,340)
Interest paid	(21,053)	(26,894)
Interest received	975	3,328
	(246,068)	(255,906)
<b>Net cash used in operating activities</b>	<b>7,151,218</b>	<b>(3,848,642)</b>
<b>Cash flow from investing activities</b>		
Net (purchases)/proceeds of available-for-sale securities	(4,344,326)	1,558,291
Net purchases of held-to-maturity securities	(111,758)	(628,933)
Interest received on available-for-sale and held-to-maturity securities	241,244	168,475
Dividends received on available-for-sale and held-to maturity securities	7,972	5,267
Proceeds from sale of property and equipment	3,757	19,053
Purchase of property and equipment	(76,461)	(81,941)
Proceeds from disposal of associated companies	-	9,687
Acquisition of new subsidiary company	-	1,628
Capital repayment from Bursa Malaysia Berhad	-	3,409
<b>Net cash generated from investing activities</b>	<b>(4,279,572)</b>	<b>1,054,936</b>
<b>Cash flow from financing activities</b>		
Interest paid on subordinated obligations	(16,535)	-
Proceeds from issuance of subordinated obligations	685,495	-
Purchase of treasury shares in company	(13,322)	(1,916)
Purchase of treasury shares in subsidiary company	(61,235)	(274,375)
Repayment of revolving credit/other bank loans	(48,700)	(15,800)
Repayment of term loans	(70,000)	(100,000)
Issuance of medium term notes and commercial papers	96,619	69,000
Dividends paid to		
- shareholders of the Company	(164,018)	(164,018)
- minority shareholders	(99,858)	(107,376)
<b>Net cash generated from financing activities</b>	<b>308,446</b>	<b>(594,485)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>3,180,092</b>	<b>(3,388,191)</b>
<b>Cash and cash equivalents as at 1 July</b>	<b>11,556,472</b>	<b>14,944,024</b>
<b>Effect of change in foreign exchange rate</b>	<b>(4,280)</b>	<b>639</b>
<b>Cash and cash equivalents as at 30 June</b>	<b>14,732,284</b>	<b>11,556,472</b>
<b>Analysis of cash and cash equivalents as at 30 June</b>		
Cash and short term funds	14,762,999	11,580,037
Less: Remisiers' and clients' trust monies	(30,715)	(23,565)
	14,732,284	11,556,472

**HONG LEONG FINANCIAL GROUP BERHAD (8024-W)**  
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**AUDITED COMPANY CASH FLOW STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

<b>COMPANY</b>	<b>30/06/06</b> <b>RM '000</b>	<b>30/06/05</b> <b>RM '000</b>
<b>Cash flows from operating activities</b>		
Net profit before taxation	287,418	278,235
<b>Adjustments for :</b>		
Non-cash items	(292,214)	(283,213)
Operating profit before working capital changes	(4,796)	(4,978)
Decrease / (increase) in assets / receivables	(738)	25,373
Increase in liabilities / payables	9,697	2,199
<b>Cash used in operations</b>	<b>4,163</b>	<b>22,594</b>
Income tax refund	8,106	12,433
Interest paid	(18,858)	(24,253)
Interest received	975	2,195
<b>Net cash used in operating activities</b>	<b>(5,614)</b>	<b>12,969</b>
<b>Cash flow from investing activities</b>		
Dividends received from investment	225,488	219,515
Proceeds from disposal of property, plant and equipment	4	54
Purchase of additional shares in a subsidiary company	(2,016)	(13,794)
Proceeds from liquidation of a subsidiary company	138	-
Purchase of property, plant and equipment	(631)	(994)
Proceed from disposal of investment	4	258
Purchase of ESOS shares	(13,322)	-
<b>Net cash generated from investing activities</b>	<b>209,665</b>	<b>205,039</b>
<b>Cash flow from financing activities</b>		
Dividends paid	(164,018)	(164,018)
Repayment of debt	(14,081)	(37,800)
<b>Net cash generated from financing activities</b>	<b>(178,099)</b>	<b>(201,818)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>25,952</b>	<b>16,190</b>
<b>Cash and cash equivalents as at 1 July</b>	<b>21,023</b>	<b>4,833</b>
<b>Cash and cash equivalents as at 30 June</b>	<b>46,975</b>	<b>21,023</b>



**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG” or “the Company”)  
(Formerly known as Hong Leong Credit Berhad)  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

**1. Basis of preparation**

The condensed financial statements are audited 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. The details are disclosed in Note 32

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.

**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 HLFG**

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 materially affected by any 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 year.

**5. Variation from financial estimates reported in preceding financial year**

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

## 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 in HLFG for the financial year ended 30 June 2006 other than as mentioned below

### Purchase of shares pursuant to ESOS

A trust has been set up for the ESOS of HLFG 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 shares from the open market for the purposes of this trust. In accordance to FRS 132: Financial Statements: Presentation and Disclosure, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS" in the Shareholders' Funds on the Balance Sheet. As at 30 June 2006, the number of shares bought by the appointed trustee was 3,081,900 at an average price of RM4.32 and the total consideration paid, including transaction costs was RM13,322,000.

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

## 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 2006 was paid on 30 December 2005 (2004: 8 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 2006 was paid on 28 June 2006 (2005: 10 sen per share tax exempt).
- (c) Total dividend paid for the financial year ended 30 June 2006: 8 sen per share less income tax and 10 sen per share tax exempt (2005: 8 sen per share less income tax and 10 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 year 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	Banking business
Securities & Asset Management	Stocks and securities broking, and fund and unit trust management
Insurance	Life and general insurance business
Other operations	Investment holding, provision of management services, property management, information technology and Internet related business

<b>Group</b>	<b>Banking</b>	<b>Securities &amp; Asset Mgt</b>	<b>Insurance</b>	<b>Others</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>30 June 2006</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Revenue</b>						
External sales	1,619,327	54,574	159,542	(4,321)		1,829,122
Intersegment sales	11,406	4,161	4,443		(20,010)	-
	<u>1,630,733</u>	<u>58,735</u>	<u>163,985</u>	<u>(4,321)</u>	<u>(20,010)</u>	<u>1,829,122</u>
<b>Results</b>						
Segment results	764,241	27,819	91,906	288,658	(313,312)	859,312
Profit before taxation						<u>859,312</u>
Taxation						<u>(243,247)</u>
Profit after taxation						<u>616,065</u>
Minority interest						<u>(210,635)</u>
Net profit for the period						<u>405,430</u>
<b>Other information</b>						
Segment assets	60,422,949	239,897	4,244,246	73,134	508,508	65,488,734
Other corporate assets						<u>186,152</u>
<b>Total consolidated assets</b>						<u>65,674,886</u>
Segment liabilities	56,129,744	84,397	3,890,430	27,637	(119,108)	60,013,100
Other corporate liabilities						<u>548,844</u>
<b>Total consolidated liabilities</b>						<u>60,561,944</u>
Capital expenditure	66,228	1,316	7,871	1,046	-	76,461
Depreciation	55,576	1,471	16,224	615	-	73,886
Loan loss and other provision	249,099	-	-	-	-	249,099

Group	Banking	Securities & Asset Mgt	Insurance	Others	Eliminations	Consolidated
30 June 2005	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>						
External sales	1,433,892	45,953	157,510	4,078	-	1,641,433
Intersegment sales	21,346	3,477	8,178	3,144	(36,145)	-
	<u>1,455,238</u>	<u>49,430</u>	<u>165,688</u>	<u>7,222</u>	<u>(36,145)</u>	<u>1,641,433</u>
<b>Results</b>						
Segment results	713,437	16,874	96,841	283,341	(309,688)	800,805
Share of profits from associates	-	(61)	-	-	-	(61)
Profit before taxation						<u>800,744</u>
Taxation						<u>(224,642)</u>
Profit after taxation						<u>576,102</u>
Minority interest						<u>(203,837)</u>
Net profit for the year						<u>372,265</u>
<b>Other information</b>						
Segment assets	57,592,056	213,538	3,772,455	45,868	(663,301)	60,960,616
Other corporate assets						<u>135,145</u>
<b>Total consolidated assets</b>						<u>61,095,761</u>
Segment liabilities	53,271,197	65,535	3,434,995	17,508	(844,718)	55,944,517
Other corporate liabilities						<u>246,021</u>
<b>Total consolidated liabilities</b>						<u>56,190,538</u>
Capital expenditure	65,937	948	13,754	1,302	-	81,941
Depreciation	51,582	2,161	7,464	425	-	61,632
Loan loss and other provision	166,106	-	-	-	-	166,106

## 9. Securities held at fair value through profit or loss

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
<b><u>At Fair Value</u></b>		
Malaysian Government Treasury Bills	24,652	9,745
Malaysian Government Securities	246,604	15,570
Negotiable instruments of deposit	2,592,938	1,670,100
Bankers' acceptances and Islamic accepted bills	15,312	538,530
Bank Negara Malaysia bills	69,158	1,427
Cagamas bonds/notes	742,369	206,653
Other Government Securities	-	98,140
	3,691,033	2,540,165
Quoted securities :		
Shares/Loan stocks/Unit Trust/FCY Bonds	133,168	51,815
Unquoted securities :		
Private debt securities	82,826	84,696
Total securities held at fair value through P&L	3,907,027	2,676,676

## 10. Securities available-for-sale

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
<b><u>At Fair Value</u></b>		
Malaysian Government Treasury Bills	256,703	-
Malaysian Government Securities	3,094,043	183,826
Cagamas bonds	1,539,632	1,290,459
Other Government Securities	23,562	234,572
	4,913,940	1,708,857
Quoted securities :		
Shares/loan stocks	610,539	297,672
Foreign Currency Bonds	1,003,278	826,974
Shares outside Malaysia		314
Unquoted securities :		
Private debt securities/shares/reits	1,232,644	703,839
Total securities available-for-sale	7,760,401	3,537,656

## 11. Securities held-to-maturity

	<b>Group</b>	
	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
<b><u>At Amortised Cost</u></b>		
Malaysian Government Securities	239,789	247,191
Bankers' acceptances and Islamic accepted bills	155,866	253,797
Cagamas bonds	440,359	165,323
Khazanah bonds	4,875	9,027
NIDs	-	6,094
	<hr/>	<hr/>
	849,889	681,432
Quoted securities :		
Foreign currency bonds	11,039	11,486
Unquoted securities :		
Private debt securities/shares/loan stocks	369,276	445,196
	<hr/>	<hr/>
Total securities held-to-maturity	<u>1,221,204</u>	<u>1,138,114</u>

## 12. Loans, advances and financing

### Group

	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Overdrafts	2,959,945	3,107,337
Term loans :		
- Housing loans/financing	13,687,545	11,047,892
- Syndicated term loan/financing	1,270,824	1,743,830
- Hire purchase receivables	6,166,419	6,423,928
- Lease receivables	19,450	8,015
- Other term loans/financing	1,601,129	1,133,781
Credit/charge card receivables	1,204,604	943,832
Bills receivables	479,948	354,378
Trust receipts	153,710	192,550
Claims on customers under acceptance credits	2,478,691	2,002,016
Block discounting	19,540	37,137
Revolving credits	635,503	580,792
Policy and premium loans	440,090	358,943
Staff loans	117,073	129,270
Other loans/financing	61,966	80,222
	<hr/>	<hr/>
	31,296,437	28,143,923
Unearned interest and income	(1,327,429)	(1,323,989)
	<hr/>	<hr/>
	29,969,008	26,819,934
Allowance for bad and doubtful debts and financing :		
- general	(436,233)	(412,877)
- specific	(473,817)	(465,254)
	<hr/>	<hr/>
Net loans, advances and financing	29,058,958	25,941,803



## 12. Loans, advances and financing (continued)

### 12a By type of customer

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Domestic banking institutions	148	153
Domestic non-bank financial institutions	123,561	65,748
Domestic business enterprises		
- Small and medium enterprises	3,746,882	4,577,643
- Others	5,776,117	4,429,596
Government and statutory bodies	114,638	116,132
Individuals	19,249,311	16,617,003
Other domestic entities	29,113	49,385
Foreign entities	929,238	964,274
Gross loans, advances and financing	<u>29,969,008</u>	<u>26,819,934</u>

### 12b By interest/profit rate sensitivity

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Fixed rate		
- Housing loans/financing	3,665,259	3,504,081
- Hire purchase receivables	5,476,042	5,721,525
- Other fixed rate loan/financing	2,311,124	835,226
Variable rate		
- Base lending rate plus	15,195,330	15,714,703
- Cost plus	3,223,618	1,037,721
- Other variables rates	97,635	6,678
Gross loans, advances and financing	<u>29,969,008</u>	<u>26,819,934</u>

## 12. Loans, advances and financing (continued)

### 12c By economic sector

	<b>Group</b>	
	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
Agriculture	310,643	245,910
Mining and quarrying	37,146	36,513
Manufacturing	2,531,467	2,326,718
Electricity, gas and water	22,640	33,408
Construction	643,895	826,888
Real Estate	387,432	298,259
Purchase of landed properties (of which : - residential	10,448,532	8,445,304
- non-residential)	3,354,428	2,460,381
General commerce	2,108,620	1,862,706
Transport, storage and communication	307,911	273,484
Finance, insurance and business services	669,818	559,196
Purchase of securities	703,516	838,974
Purchase of transport vehicles	4,703,448	4,861,113
Consumption credit	2,548,124	2,119,050
Others	1,191,388	1,632,030
<b>Gross loans, advances and financing</b>	<b>29,969,008</b>	<b>26,819,934</b>

## 12. Loans, advances and financing (continued)

### 12d Non-performing loans by sector

	<b>Group</b>	
	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
Agriculture	4,405	4,253
Mining and quarrying	4,294	2,965
Manufacturing	178,329	279,311
Electricity, gas and water	280	685
Construction	107,267	265,392
Real estate	93,646	34,291
Purchase of landed properties		
(of which : - residential	337,276	352,820
- non-residential)	160,412	126,539
General commerce	96,046	121,484
Transport, storage and communication	26,788	48,071
Finance, insurance and business services	123,336	140,662
Purchase of securities	33,461	29,163
Purchase of transport vehicles	107,102	132,400
Consumption credit	71,278	77,785
Others	38,063	41,862
<b>Gross loans, advances and financing</b>	<b>1,381,983</b>	<b>1,657,683</b>

## 12. Loans, advances and financing (continued)

### 12c Movements in non-performing loans, advances and financing ("NPL") are as follows:

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
At beginning	1,657,683	2,148,297
Non-performing during the period/year	3,251,908	2,634,676
Reclassified as performing	(2,757,428)	(1,971,777)
Amount written back in respect of recoveries	(481,955)	(549,610)
Amount written off	(289,745)	(605,675)
Exchange differences	1,520	1,772
	<hr/>	<hr/>
Closing balance	1,381,983	1,657,683
Specific allowance	(473,817)	(465,254)
	<hr/>	<hr/>
Net non-performing loans, advances and financing	908,166	1,192,429
	<hr/> <hr/>	<hr/> <hr/>
Net NPL as a % of gross loans, advances and financing less specific allowance	3.1%	4.6%

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

	Group	
	As at 30/06/06 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	23,057	45,697
Exchange differences	299	225
	<hr/>	<hr/>
Closing balance	436,233	412,877
	<hr/> <hr/>	<hr/> <hr/>
As % of gross loans, advances and financing less specific allowance	1.5%	1.6%
	<hr/> <hr/>	<hr/> <hr/>
<u>Specific Allowance</u>		
At beginning	465,254	868,043
Allowance made during the period/year	386,511	304,207
Amount written back in respect of recoveries	(89,250)	(101,309)
Amount written off	(289,746)	(605,675)
Amount transferred to provision for diminution in value	-	(904)
Exchange differences	1,048	892
	<hr/>	<hr/>
Closing balance	473,817	465,254

### 13. Other receivables

#### Group

	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Interest/Income receivable	199,489	162,327
Investment Properties	190,057	190,057
Other debtors, deposits and prepayments	409,749	313,685
Foreclosed properties	3,009	3,159
	<u>802,304</u>	<u>669,228</u>

#### Company

	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Amount due from subsidiary companies	7,091	6,217
Amount due from related companies	284	503
Other debtors, deposits and prepayments	356	271
	<u>7,731</u>	<u>6,991</u>

#### 14. Deposits from customers

	<b>Group</b>	
	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
Fixed deposits	27,066,053	28,711,240
Negotiable instruments of deposit	6,229,198	1,095,999
Demand deposits	4,255,913	3,668,589
Savings deposits	6,402,925	6,100,599
Other	244,328	146,029
	44,198,417	39,722,456

	<b>Group</b>	
<b>The maturity structure of fixed deposits and negotiable instruments :</b>	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
One year or less (short term)	32,691,507	29,753,385
More than one year (medium/long term)	603,744	53,854
	33,295,251	29,807,239

	<b>Group</b>	
<b>The deposits from customer are sourced from the following types of customers:</b>	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
Government and statutory bodies	650,612	318,002
Business enterprises	14,592,305	12,940,007
Individuals	27,055,017	25,241,952
Others	1,900,483	1,222,495
	44,198,417	39,722,456

## 15. Deposits and placements of banks and other financial institutions

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Licensed banks	2,494,760	2,066,162
Other financial institutions	301,500	-
	<u>2,796,260</u>	<u>2,066,162</u>

### The maturity structure :

One year or less (short term)	2,796,260	2,066,162
More than one year (medium/long term)	-	-
	<u>2,796,260</u>	<u>2,066,162</u>

## 16. Floating Rate Certificate of Deposits

	Group	
	As at 30/06/06 RM '000	As at 30/06/05 RM '000
Floating rate certificate of deposits		
- USD110 million	-	417,916
	<u>-</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 matured on 20 March 2006.

## 17. Subordinated Bonds

	<b>Group</b>	
	<b>As at 30/06/06 RM '000</b>	<b>As at 30/06/05 RM '000</b>
Subordinated Bonds		
- USD200 million	704,049	-
	<u>704,049</u>	<u>-</u>

On 3 August 2005, the Banking subsidiary company, Hong Leong Bank Berhad (“the Bank” or “HLB”) 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 Banking Group and the Bank.



## 18. Payables and other liabilities

### Group

As at 30/06/06 RM '000	As at 30/06/05 RM '000
------------------------------	------------------------------

Trade payables	294,336	190,794
Amount due to related companies	1,293	1,593
Other payables and accrued liabilities	729,316	557,662
Interest payable	316,990	307,072
Post employment benefits obligations - defined contribution plan	5,735	6,140
	<hr/>	<hr/>
	1,347,670	1,063,261

### Company

As at 30/06/06 RM '000	As at 30/06/05 RM '000
------------------------------	------------------------------

Amount due to subsidiary companies	9,732	783
Amount due to related companies		-
Other payables and accrued liabilities	5,186	3,945
Interest payable	5,817	6,012
Post employment benefits obligations - defined contribution plan	65	60
	<hr/>	<hr/>
	20,800	10,800

## 19. Interest income

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
Loan, advances and financing				
- Interest income other than recoveries from NPLs	309,924	279,562	1,196,132	1,145,051
- recoveries from NPLs	47,905	42,314	184,550	206,350
Money at call and deposit placements with financial institutions	143,775	92,017	462,670	355,534
Securities purchased under resale Agreement	43,994	57,197	215,115	120,816
Securities held-for-trading	40,958	29,872	136,473	123,114
Securities available-for-sale	62,661	1,644	212,655	119,352
Securities held-to-maturity	6,402	31,296	28,589	49,123
Others	(1,865)	17,362	6,116	33,484
	653,754	551,264	2,442,300	2,152,824
Amortisation of premium less accretion of discount	(13,232)	(2,982)	(32,945)	(14,533)
Interest suspended	5,829	(7,786)	(7,886)	(12,901)
	646,351	540,496	2,401,469	2,125,390

	Company		Company	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
Money at call and deposit placements with financial institutions	536	503	975	1,353
Others	-	-	-	842
	536	503	975	2,194

## 20. Interest expense

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
Deposits and placements of banks and other financial institutions	85,516	77,835	316,260	226,751
Deposits from customers	268,151	232,373	1,021,239	927,922
Borrowings	6,192	5,541	23,784	24,945
Subordinated bonds	9,508	-	35,089	-
Others	144	602	1,166	1,493
	<u>369,511</u>	<u>316,351</u>	<u>1,397,538</u>	<u>1,181,111</u>

	Company		Company	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
Borrowings	5,404	5,391	21,589	23,149
	<u>5,404</u>	<u>5,391</u>	<u>21,589</u>	<u>23,149</u>

## 21. Non Interest Income

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/06/06 RM '000	30/06/05 RM '000	30/06/06 RM '000	30/06/05 RM '000
Net income from Insurance				
Business:	83,346	104,650	144,048	152,250
Net brokerage and commissions from Stockbroking Business:	11,016	8,464	25,243	24,491
Net unit trust and asset management income:	9,152	5,441	26,796	24,002
Fee income:				
Commissions	18,223	21,515	67,635	78,837
Service charges and fees	15,420	6,929	42,461	29,066
Guarantee fees	1,431	1,508	5,656	5,796
Other fee income	47,308	30,779	161,495	131,842
	82,382	60,731	277,247	245,541
Gain/(loss) arising from sale of securities				
Net gain from sale of securities held-for-trading	(2,997)	1,231	17,269	15,028
Net gain from sale of securities available-for-sale	(10,727)	2,991	23,303	52,401
Net gain from sale of securities held-to-maturity	-	1,815	4,277	2,235
	(13,724)	6,037	44,849	69,664
Gross dividend income from:				
Securities held-for-trading	1,060	1,067	1,350	1,558
Securities available-for-sale	1,605	684	6,138	3,546
Securities held-to-maturity	1,093	1,396	1,834	1,721
	3,758	3,147	9,322	6,825
Unrealised gain/(losses) on revaluation of securities held-for-trading and derivatives	49,853	(6,982)	58,341	(22,942)
Other income:				
Foreign exchange gain/(loss)	7,859	8,389	62,412	35,350
Rental income	400	21	535	182
Gain/(loss) on disposal of property and equipment	101	679	671	2,814
Others	(3,794)	1,033	9,017	7,919
	4,566	10,122	72,635	46,265
<b>Total non interest income</b>	<b>230,348</b>	<b>191,610</b>	<b>658,480</b>	<b>546,096</b>

## 22. Other operating income (continued)

	Company		Company	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
(a) Fee income:				
Management fees	1,781	9	2,006	36
(b) Gross dividend income from:				
Subsidiary companies	74,167	74,166	313,178	304,325
(c) Other income:				
Others	99	-	243	308
<b>Total other operating income</b>	<b>76,047</b>	<b>74,175</b>	<b>315,427</b>	<b>304,669</b>

## 23. Other operating expenses

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	68,093	83,858	313,298	315,061
- Others	13,001	9,400	33,648	35,138
<u>Establishment costs</u>				
- Depreciation	18,506	17,876	73,886	61,632
- Rental	887	1,226	26,959	27,032
- Information technology expenses	11,283	7,515	34,722	24,724
- Others	12,423	12,099	44,787	44,789
<u>Marketing expenses</u>				
- Advertisement and publicity	(8,869)	8,252	16,067	28,910
- Handling fees	2,436	4,321	16,549	14,089
- Others	10,055	14,312	31,176	32,118
<u>Administration and general expenses</u>				
- Teletransmission expenses	2,658	(963)	8,920	5,262
- Stationery & printing	5,886	8,110	17,794	19,978
- Others	39,566	26,226	93,197	65,789
	<b>175,925</b>	<b>192,233</b>	<b>711,002</b>	<b>674,522</b>

### 23. Other operating expenses (continued)

	Company		Company	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	1,135	508	3,960	2,921
- Others	194	229	585	490
<u>Establishment costs</u>				
- Depreciation	132	109	493	343
- Rental	184	138	411	309
- Others	(0)	80	148	184
<u>Administration and general expenses</u>				
- Teletransmission expenses	7	4	26	19
- Stationery & printing	10	10	38	50
- Others	446	165	1,734	1,162
	<u>2,108</u>	<u>1,243</u>	<u>7,395</u>	<u>5,479</u>

### 24. Allowance for losses on loans, advances and financing

	Group		Group	
	Current quarter ended		Cumulative quarter ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM '000	RM '000	RM '000	RM '000
Allowance for bad and doubtful debts and financing:				
- general allowance (net)	21,391	12,020	23,057	45,697
- specific allowance	115,264	100,117	386,511	304,207
- specific allowance written back	(22,377)	(47,624)	(89,250)	(101,309)
Bad debts and financing written off	1,814	4,612	7,640	9,008
Bad debts and financing recovered	(22,079)	(18,804)	(78,859)	(91,497)
	<u>94,013</u>	<u>50,321</u>	<u>249,099</u>	<u>166,106</u>

## 25. 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 2006 and 30 June 2005 met the minimum requirement.

	As at 30/06/2006 RM'000	As at 30/06/2005 RM'000
<b><u>Components of Tier - 1 and Tier - 2 Capital</u></b>		
<b>Tier -1 capital</b>		
Paid up share capital	1,580,107	1,580,107
Share premium	539,664	539,664
Retained profit, as restated	1,170,005	1,035,952
As previously stated	-	1,040,133
Prior year adjustments	-	(4,181)
Other Reserves	1,661,766	1,515,369
Less :Treasury Shares	(491,025)	(274,375)
Less : Deferred Tax	(173,301)	(114,778)
As previously stated	-	(115,204)
Prior year adjustments	-	426
<b>Total tier 1 capital</b>	<b>4,287,216</b>	<b>4,281,939</b>
<b>Tier - 2 capital</b>		
General provision	436,233	412,877
Subordinated bonds	734,900	-
<b>Total tier 2 capital</b>	<b>1,171,133</b>	<b>412,877</b>
<b>Total capital base</b>	<b>5,458,349</b>	<b>4,694,816</b>
<b><u>Before deducting proposed dividends</u></b>		
Core Capital Ratio	13.76%	15.79%
Risk-weighted Capital Ratio	17.52%	17.31%
<b><u>After deducting proposed dividends</u></b>		
Core Capital Ratio	13.24%	15.16%
Risk-weighted Capital Ratio	17.00%	16.68%

## 26. Events after Balance Sheet date

There were no material events subsequent to the end of the financial year ended 30 June 2006.

## 27. Changes in composition of the Group

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

- On 17 June 2005, the Company had placed Hong Leong Equities (Hong Kong) Limited (“HLE(HK)”), a wholly-owned subsidiary of the Company, under member's voluntary liquidation. HLE(HK) was dissolved on 3 December 2005.
- Hong Leong Bank Berhad (“the Bank” or “HLB”) 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 (“Disposal”). The approval of the Foreign Investment Committee for the Disposal has been obtained and the 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.
- On 28 March 2006, the Company announced that Hong Leong Assurance Berhad (“HLA”), a wholly-owned subsidiary of the Company, had entered into a joint venture agreement with HLB and Tokio Marine & Nichido Fire Insurance Co. Ltd (“Tokio Marine”) to form a joint venture company to be known as Hong Leong Tokio Marine Takaful Berhad (“HLTM”) to operate as a registered takaful operator (“JV”). The equity participation of the JV company is HLB (55%), HLA (10%) and Tokio Marine (35%). HLTM was incorporated on 19 June 2006.

BNM had, vide its letter dated 2 March 2006, approved an application by the JV parties for a takaful licence under the Takaful Act 1984. The JV represented a strategic alliance between the parties to undertake Takaful business in Malaysia and a vehicle for future overseas expansion in the Takaful business.



- On 28 June 2006, the Company announced that it had transferred 2 ordinary shares of RM1.00 each fully paid, representing the entire issued and paid-up share capital of Natcap Portfolio Sdn Bhd to its wholly-owned subsidiary, HLC Management Co Sdn Bhd (“HLC MC”) for a total cash consideration of RM2. The Company further announced that its wholly-owned subsidiary, Heritage Vest (M) Sdn Bhd (in member’s voluntary liquidation) had transferred 408,000 ordinary shares of RM1.00 each fully paid, representing the entire issued and paid -up share capital of AutoWeb Sdn Bhd, which had a negative net tangible assets of RM25,825 to HLC MC for a total cash consideration of RM1.
- The Bank had, on 29 June 2006, announced that HLB Ventures Sdn Bhd, Chew Geok Lin Nominees (Tempatan) Sdn Bhd, Chew Geok Lin Nominees (Asing) Sdn Bhd and Wah Tat Properties Sdn Bhd were placed under Member’s Voluntary Winding-up pursuant to Section 254(1) of the Companies Act, 1965.

## 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 30/06/2006			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	190,074	190,074	190,074	161,538	161,538	161,538
Transaction-related contingent items	242,907	121,453	121,454	308,963	154,482	154,482
Short-term self liquidating trade-related contingencies	633,426	126,685	126,685	469,936	93,987	93,188
Other assets sold with recourse and commitment	31,987	31,987	31,987	-	-	-
Irrevocable commitments to extend credit :						
-maturity more than 1 year	4,257,875	2,128,938	2,128,938	4,122,753	2,061,377	2,061,377
-maturity less than 1 year	10,943,047	-	-	9,181,257	-	-
Foreign exchange related contracts	8,666,574	259,954	129,978	7,639,221	158,934	79,467
Interest rate related contracts	23,109,340	277,279	138,641	16,389,047	74,294	37,148
Equity related contracts	8,288	-	208	106,922	1,604	802
Miscellaneous	419	-	-	694	-	-
<b>Total</b>	<b>48,083,937</b>	<b>3,136,370</b>	<b>2,867,965</b>	<b>38,380,331</b>	<b>2,706,216</b>	<b>2,588,002</b>

- (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 June 2006.

## 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 (continued)

	The Group 2005								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	Trading Book RM'000	Total RM'000	
<b>Assets</b>									
Cash and short term funds	11,058,183	-	-	-	-	521,854	-	11,580,037	2.8
Securities purchased under resale agreements	3,015,891	4,381,237	2,531,364	-	-	-	-	9,928,492	2.8
Deposits and placements with financial institutions	-	3,515,935	130,852	250	-	-	-	3,647,037	2.8
Securities held at fair value through profit or loss	-	-	-	-	-	-	2,676,676	2,676,676	3.1
Available-for-sale securities	70,182	217,196	257,124	2,526,712	198,196	268,246	-	3,537,656	4.3
Held-to-maturity securities	7,302	40,944	91,142	849,815	146,619	2,292	-	1,138,114	6.1
Loans, advances and financing									
- Performing	13,315,639	1,474,976	2,225,146	4,820,504	3,340,806	-	-	25,177,071	6.5
- Non-performing	-	-	-	-	-	764,732	-	764,732	-
Trade receivables#	-	-	-	-	-	189,279	-	189,279	-
Other receivables	-	-	-	-	-	669,228	-	669,228	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	839,600	-	839,600	-
Tax recoverable	-	-	-	-	-	21,030	-	21,030	-
Deferred tax asset	-	-	-	-	-	113,867	-	113,867	-
Property and equipment	-	-	-	-	-	341,559	-	341,559	-
Goodwill arising on consolidation	-	-	-	-	-	471,383	-	471,383	-
<b>Total assets</b>	<b>27,467,197</b>	<b>9,630,288</b>	<b>5,235,628</b>	<b>8,197,281</b>	<b>3,685,621</b>	<b>4,203,070</b>	<b>2,676,676</b>	<b>61,095,761</b>	
<b>Liabilities</b>									
Deposits from customers	17,465,112	6,383,980	11,627,514	53,853	-	4,191,997	-	39,722,456	2.7
Deposits and placements of banks and other financial institutions	1,788,789	100,000	177,000	-	-	373	-	2,066,162	2.6
Obligations on securities sold under repurchase agreements	8,051,783	560,465	-	-	-	-	-	8,612,248	2.6
Floating rate certificates of deposits	-	-	417,916	-	-	-	-	417,916	3.5
Bills and acceptances payable	68,123	87,044	88,388	-	-	325,340	-	568,895	3.1
Payables and other liabilities#	-	-	-	-	-	1,063,261	-	1,063,261	-
Provision for claims	-	-	-	-	-	161,339	-	161,339	-
Provision for taxation	-	-	-	-	-	44,774	-	44,774	-
Bank loans and overdrafts	121,700	-	39,300	40,000	-	-	-	201,000	3.6
Long term liabilities									
- Commercial papers	-	-	69,098	-	-	-	-	69,098	2.9
- Medium term notes	-	-	-	160,000	40,000	-	-	200,000	7.0
Insurance funds	-	-	-	-	-	3,063,389	-	3,063,389	-
<b>Total liabilities</b>	<b>27,495,507</b>	<b>7,131,489</b>	<b>12,419,216</b>	<b>253,853</b>	<b>40,000</b>	<b>8,848,473</b>	<b>-</b>	<b>56,190,538</b>	
Shareholder's funds	-	-	-	-	-	3,218,330	-	3,218,330	
Minority interest	-	-	-	-	-	1,686,893	-	1,686,893	
<b>Total liabilities and shareholder's funds</b>	<b>27,495,507</b>	<b>7,131,489</b>	<b>12,419,216</b>	<b>253,853</b>	<b>40,000</b>	<b>4,905,223</b>	<b>-</b>	<b>4,905,223</b>	
On-balance sheet interest sensitivity gap	(28,310)	2,498,799	(7,183,588)	7,943,428	3,645,621	-	-	-	
Off-balance sheet interest sensitivity gap	240,000	(1,920,645)	(3,476,507)	(7,551,250)	17,402	-	-	-	
<b>Total interest sensitivity gap</b>	<b>211,690</b>	<b>578,154</b>	<b>(10,660,095)</b>	<b>392,178</b>	<b>3,663,023</b>	<b>-</b>	<b>-</b>	<b>-</b>	

### 31. Operations of Islamic Banking

#### 31a Audited Balance Sheets as at 30 June 2006

	<b>Group</b>	
	<b>Financial Year Ended 30/06/2006 RM'000</b>	<b>Financial Year Ended 30/06/2005 RM'000</b>
<b><u>ASSETS</u></b>		
Cash and short-term funds	1,370,943	1,461,250
Deposits and placements with banks and other financial institutions	-	191,396
Securities - Held for trading	129,027	300,339
Securities - Available for sale	178,524	373,406
Securities - Held to maturity	589,337	-
Financing, advances and other financing	3,944,758	3,402,467
Other assets	36,525	17,563
Statutory deposits with Bank Negara Malaysia	163,424	51,150
Property, plant and equipment	2,060	105
Deferred tax assets	19,063	18,723
<b>Total Assets</b>	<b>6,433,661</b>	<b>5,816,399</b>
<b><u>LIABILITIES AND ISLAMIC BANKING FUNDS</u></b>		
Deposits from customers	5,701,544	4,889,360
Deposits and placements of banks and other financial institutions	135,000	91,750
Obligations on securities sold under repurchase agreements	-	246,600
Bills and acceptance payable	1,424	562
Other liabilities	52,037	125,472
Provision for taxation	2,373	38,373
<b>Total Liabilities</b>	<b>5,892,378</b>	<b>5,392,117</b>
Islamic banking capital fund	500,000	310,127
Reserves	41,283	114,155
<b>Islamic Banking Funds</b>	<b>541,283</b>	<b>424,282</b>
<b>Total Liabilities and Islamic Banking Funds</b>	<b>6,433,661</b>	<b>5,816,399</b>
<b><u>COMMITMENTS AND CONTINGENCIES</u></b>	<b>427,370</b>	<b>344,662</b>

### 31. Operations of Islamic Banking (continued)

#### 31b Audited Income Statements for the 4th Quarter and Cumulative 12 Months Ended 30 June 2006

	4th Quarter Ended		Financial Year Ended	
	30/06/2006 RM'000	30/06/2005 RM'000	30/06/2006 RM'000	30/06/2005 RM'000
<b>Group</b>				
Income derived from investment of deposits' funds and others	76,808	77,789	293,568	249,913
Income derived from investment of shareholders' funds	6,277	7,534	27,339	21,291
Allowance for losses on financing	(7,638)	(7,672)	(23,007)	(25,525)
Provision for commitments and contingencies	-	-	-	-
Impairment loss	-	-	-	-
Profit equalisation reserve	4,560	1,000	10,035	(1,218)
Other expenses directly attributable to the investment of the deposits and shareholders' funds	-	-	-	-
<b>Total distributable income</b>	<b>80,007</b>	<b>78,651</b>	<b>307,935</b>	<b>244,461</b>
Income attributable to deposits	(45,521)	(33,188)	(164,231)	(118,928)
<b>Total net income</b>	<b>34,486</b>	<b>45,463</b>	<b>143,704</b>	<b>125,533</b>
Other operating expenses	(18,861)	(4,451)	(81,270)	(13,145)
<b>Profit before taxation and zakat</b>	<b>15,625</b>	<b>41,012</b>	<b>62,434</b>	<b>112,388</b>
Zakat	(9)	(15)	(49)	(45)
Taxation	(6,210)	(11,507)	(19,301)	(31,493)
<b>Profit after taxation and zakat</b>	<b>9,406</b>	<b>29,490</b>	<b>43,084</b>	<b>80,850</b>
Profit attributable to shareholders	<b>9,406</b>	<b>29,490</b>	<b>43,084</b>	<b>80,850</b>
Earnings per share - basic (sen)	<b>2.58</b>	<b>9.51</b>	<b>11.83</b>	<b>26.07</b>

### 31. Operations of Islamic Banking (continued)

#### 31c Financing, advances and other financing

##### (i) By type

	Group	
	Financial Year Ended	Financial Year Ended
	30/06/2006	30/06/2005
	RM'000	RM'000
Cash line	10,196	10,056
Term financing		-
- House financing	1,045,491	939,212
- Hire purchase receivable	3,343,399	2,898,064
- Lease receivable	15,098	-
- Other term financing	548,171	548,741
Bills receivable	-	-
Trust receipts		-
Claims on customers under acceptance credits	103,291	17,347
Staff financing	123	126
Revolving credit	2,900	3,050
Others	1,096	56
	<u>5,069,765</u>	<u>4,416,652</u>
Less: Unearned income	(1,037,941)	(946,113)
	<u>4,031,824</u>	<u>3,470,539</u>
Less: Allowance for bad and doubtful financing		
- General	(60,158)	(55,009)
- Specific	(26,908)	(13,063)
Total net financing, advances and other financing	<u><u>3,944,758</u></u>	<u><u>3,402,467</u></u>

##### (ii) By contract

	Group	
	Financial Year Ended	Financial Year Ended
	30/06/2006	30/06/2005
	RM'000	RM'000
Bai' Bithaman Ajil (deferred payment sale)	979,754	930,530
Ijarah (lease)	13,794	-
Ijarah Muntahia Bittamlik/AITAB (lease ended with ownership)	2,934,985	2,518,694
Murabahah (cost-plus)	103,291	21,315
	<u><u>4,031,824</u></u>	<u><u>3,470,539</u></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

	<b>Group</b>	
	<b>Financial Year Ended 30/06/2006 RM'000</b>	<b>Financial Year Ended 30/06/2005 RM'000</b>
At beginning	70,437	97,701
Amount transferred from HLF	-	-
Amount transferred to HLIB	-	-
Classified as non-performing during the period	240,128	207,494
Reclassified as performing	(195,844)	(178,589)
Amount recovered	(32,270)	(31,759)
Amount written off	(6,814)	(24,410)
At end	<u>75,637</u>	<u>70,437</u>
Net non-performing financing, advances and other financing	<u>48,729</u>	<u>57,374</u>
Ratio of net non-performing financing, advances and other financing to total net financing, advances and other financing	<u>1.2%</u>	<u>1.7%</u>



### 31. Operations of Islamic Banking (continued)

#### 31d Financing, advances and other financing (continued)

Movements in allowance for bad and doubtful financing

	Group	
	Financial Period Ended 30/06/2006 RM'000	Financial Year Ended 30/06/2005 RM'000
<b>General allowance</b>		
At beginning	55,009	38,801
Amount transferred from HLF	-	-
Amount transferred to HLIB	-	-
Allowance made / (written back)	5,149	16,208
At end	<u>60,158</u>	<u>55,009</u>
As % of gross financing, advances and other financing less specific allowance	<u>1.5%</u>	<u>1.6%</u>
<b>Specific allowance</b>		
At beginning	13,063	30,125
Amount transferred from HLF	-	-
Amount transferred to HLIB	-	-
Allowance made	26,771	15,805
Amount recovered	(6,111)	(6,160)
Amount written off	(6,815)	(26,707)
At end	<u>26,908</u>	<u>13,063</u>

### 31. Operations of Islamic Banking (continued)

#### 31e Deposits from customer

By type of deposit

	Group	
	Financial Year Ended 30/06/2006 RM'000	Financial Year Ended 30/06/2005 RM'000
<b>Non-Mudharabah</b>		
Demand deposits	127,218	117,778
Savings deposits	433,735	529,808
Negotiable instruments of deposit	1,739,230	-
Others	-	233
	<u>2,300,183</u>	<u>647,819</u>
<b>Mudharabah</b>		
Demand deposits	-	-
Saving deposits	292,243	-
General investment deposits	2,094,070	4,241,541
Specific investment deposits	1,013,613	
Others	1,435	
	<u>3,401,361</u>	<u>4,241,541</u>
	<u>5,701,544</u>	<u>4,889,360</u>

## 32. Change in Accounting Policies and Prior Year Adjustments

### a) Change in Accounting Policies

During the current financial year, the Group adopted the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by BNM. The adoption of BNM/GP8 has resulted in reclassifications of the income statement and changes in accounting policies which have been applied retrospectively.

Reclassifications have not resulted in changes in accounting policies. Changes in accounting policies have resulted of changes in recognition and measurement of securities portfolio and derivative financial instruments as listed below.

#### **Recognition and measurement of securities portfolio**

Previously, trading securities were measured at lower of cost and market value. Bank guaranteed and government guaranteed private debt securities were measured at amortised cost, while non-bank guaranteed and non-government guaranteed private debts securities were measured at lower of cost and market value. Other investment securities were measured at cost and allowance is made in the event of any permanent diminution in value. Accretion of discount and amortisation of premium on non-bank guaranteed and non-government guaranteed private debt securities is not allowed.

With the revision, all securities held at fair value through profit or loss are not measured at fair value. Investment securities are classified into available-for-sale ('AFS') and held-to-maturity ('HTM') securities. AFS securities are measured at fair value, with changes in fair value recognised directly in shareholder's funds. Equity securities, which have no quoted price in an active market and whose fair value cannot be reliably measured, are classified as AFS securities and stated at cost. HTM securities are measured at amortised cost, except for investment in equity holdings in socio-economic entities which is stated at cost. Impairment losses arising from AFS and HTM securities are recognised in the current period's income statements. Accretion of discount and amortisation of premium on securities portfolio is allowed and recognised in the current period's income statements as interest income.

#### **Recognition and measurement of derivative financial instruments**

Previously, derivative financial instruments transacted by the Group for both hedging and non-hedging were recognised as off-balance sheet items, except for foreign currency forward contracts. Foreign currency forward contracts were measured at fair value, with changes in fair value were recognised directly in current period's income statements. The cumulative changes in fair value of derivatives financial instruments are presented as a separate item in balance sheet as "derivative financial instruments – assets or liabilities".

With revision, all derivative financial instruments transacted by the Group, such as interest rate swaps and foreign currency forward contracts are carried at fair value and presented separately in the balance sheets as assets (positive changes in fair value) and liabilities (negative changes in fair values). Unrealised gains or losses arising from changes in fair values of derivative financial instruments are recognised directly in current period's income statements, except for derivative financial instruments that are designated as effective hedging instruments.

For qualifying fair value hedges, the changes in fair value of the hedging derivative financial instruments (hedge instruments) are recognised in current period's income statements. Those

changes in fair value of the fixed rate subordinated obligations (hedged items), which are attributable to the risks hedged with the hedge instruments are reflected as an adjustment to the carrying value of the hedged items and also recognised in the current period's income statements.

## b) Prior Year Adjustments

The changes in accounting policies have been applied retrospectively and an analysis of the impact to the financial results and position of the Group are summarised as follows:

Balance Sheet as at 30 June 2005	As previously reported	As restated
	RM'000	RM'000
Dealing securities	2,890,344	-
Investments	4,605,744	-
Securities held at fair value thru P&L	-	2,676,676
Securities available-for-sale	-	3,537,656
Securities held-for-maturity	-	1,138,114
Other receivables	403,990	669,228
Deferred tax asset	116,964	113,867
Payables and other liabilities	978,301	1,063,261
Provision for taxation	44,406	44,774
Insurance funds	3,037,237	3,063,389
<b>Shareholders' Funds</b>		
Retained profit	1,069,534	1,068,614
AFS reserve	-	9,397
Treasury Shares	-	(1,916)
Minority interest	1,686,435	1,686,893

Income Statement for year ended 30 June 2005	As previously reported	As restated
	RM'000	RM'000
Non Interest Income	553,524	546,096
Net Income	1,648,861	1,641,433
Operating Profit	974,339	966,911
Profit before taxation	808,172	800,744
Taxation and zakat	(226,722)	(224,642)
Profit after taxation	581,450	576,102
Less : Minority interest	(206,213)	(203,837)
Profit attributable to shareholders	375,237	372,265
EPS	36.1	35.8

## **HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)**

(formerly known as Hong Leong Credit Berhad)

### **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 RM273.1 million for the quarter ended 30 June 2006 as compared to RM226.8 million in the previous corresponding quarter, an increase of RM46.3 million or 20.4%. This was mainly due to higher contribution from the Banking division and Stockbroking and Asset Management division.

The Banking division recorded a profit before taxation of RM201.3 million for the current quarter ended 30 June 2006, an increase of RM46.1 million as compared to previous corresponding quarter. Net income increased by RM93.2 million which was spurred by strong growth in business volume.

The Insurance division registered a profit before tax of RM63.4 million for the current quarter compared to a profit before tax of RM77.4 million in the previous corresponding quarter. This was mainly due to lower underwriting profit as a result of higher claims incurred.

The Stockbroking and Asset Management division registered a higher profit before tax of RM13.2 million compared to a profit before tax of RM0.7 million in the previous corresponding quarter. The profit before tax was higher in the current financial quarter under review mainly due to higher brokerage income as a result of improved market sentiment. The division also benefited from the gain on sale of Bursa shares amounting to RM7.9 million.

##### **Financial year-to-date against previous corresponding period**

The Group achieved profit before tax of RM859.3 million for the year ended 30 June 2006 as compared to RM800.7 million in the previous corresponding year, an increase of RM58.6 million or 7.3%. This was mainly due to higher profits from the Banking division and Stockbroking and Asset Management division.

The Banking division recorded a profit before tax of RM764.2 million, an increase of RM50.8 million as compared to RM713.4 million in the previous financial year. Net interest income grew by RM40.1 million, while income from Islamic operations and non interest income also grew by RM15.6 million and RM119.7 million respectively. However, loan loss provision increased by RM83.0 million due to higher specific provision made during the year.

The Insurance division registered a profit before tax of RM91.9 million for the financial year ended 30 June 2006 as compared to RM96.8 million for the previous financial year. The decrease of RM4.9 million was mainly contributed by lower underwriting profit as a result of higher claims incurred during the financial year.

The Stockbroking and Asset Management division registered a profit before tax of RM27.8 million compared to RM16.9 million in the previous financial year, an increase of RM10.9 million. The higher profit before tax for the current financial year was mainly attributable to the profit from the disposal of Bursa Shares which resulted in a realised gain of RM7.9 million.

## **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 RM277.6 million as compared to RM273.2 million in the preceding quarter. This increase was mainly contributed by higher profits from the Insurance division and Stockbroking and Asset Management division.

The Banking division recorded a profit before tax of RM201.3 million as compared to RM229.4 million in the preceding quarter, a decrease of RM28.1 million arising from higher specific provision charged.

The Insurance division contributed a profit before taxation of RM63.4 million for the current quarter as compared to RM7.2 million in the preceding quarter. The increase was mainly due to actuarial surplus distribution from the Life Fund.

The Stockbroking and Asset Management division registered a profit before tax of RM13.2 million as compared to RM5.4 million in the preceding quarter. The higher profit before tax for the current financial quarter under review was mainly due to higher brokerage income as a result of improved market sentiment. There was also a gain from sale of Bursa shares amounting to RM7.9 million.

## **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 period ended 30 June 2006:

	Group Current Quarter Ended		Group Financial Year Ended Ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM'000	RM'000	RM'000	RM'000
Tax expenses				
Malaysian – current	(84,196)	(61,279)	(255,301)	(233,636)
Overseas – current	(10)	(1,011)	(731)	(1,011)
Transfer (from) / to deferred tax	25,350	2,554	24,494	12,106
	<u>(58,856)</u>	<u>(59,736)</u>	<u>(231,538)</u>	<u>(222,541)</u>
Prior year over/(under) provision				
- Malaysian	(11,669)	(1,906)	(11,709)	(2,101)
	<u>(70,525)</u>	<u>(61,642)</u>	<u>(243,247)</u>	<u>(224,642)</u>

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-deductibility of certain expenses.

	Company Current Quarter Ended		Company Financial Ended Ended	
	30/06/06	30/06/05	30/06/06	30/06/05
	RM'000	RM'000	RM'000	RM'000
Tax expenses				
Malaysian – current	(14,721)	(19,327)	(81,644)	(78,623)
Overseas – current	-	-	-	-
Transfer (from) / to deferred tax	-	-	-	-
	<u>(14,721)</u>	<u>(19,327)</u>	<u>(81,644)</u>	<u>(78,623)</u>
Prior year over/(under) provision				
- Malaysian	-	-	-	-
	<u>(14,721)</u>	<u>(19,327)</u>	<u>(81,644)</u>	<u>(78,623)</u>

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-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 in HLFGL

## 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 15 March 2006, announced the proposed acquisition by Hong Leong Bank (“HLB”), a subsidiary of the Company, of one (1) block of six (6) storey built commercial office building located at Petaling Jaya, State of Selangor from PJ City Development Sdn Bhd (formerly known as HLMC Management Co Sdn Bhd) for a cash consideration of RM86,294,200 (“Acquisition”).

The Acquisition had been approved by the Bank Negara Malaysia vide its letter dated 20 January 2006 and FIC vide its letter dated 25 April 2006. The approvals of the shareholders of HLB and Hong Leong Financial Group Berhad (formerly known as Hong Leong Credit Berhad), the holding company of HLB, pursuant to Section 132E of the Companies Act, 1965 were obtained on 19 July 2006.

## 9. Group borrowings

The Group borrowings include:

	As at 30/06/06 RM'000	As at 30/06/05 RM'000
Short Term – unsecured	152,300	201,000
Long Term – unsecured	298,145	269,098
Total Borrowings	<u>450,445</u>	<u>470,098</u>
Subordinated Bonds	704,049	

All borrowings are denominated in Ringgit Malaysia.

On 3 August 2005, the Banking subsidiary company, Hong Leong Bank (“the Bank” or “HLB”) 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 Banking Group and the Bank.

## 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	2,176,309	1,179,447	766,307	158,088	72,467	-	-
- swaps	4,456,107	2,167,653	1,550,068	655,169	83,217	-	-
- options	1,066,999	581,611	259,651	193,657	32,080	-	-
Interest rate related contracts							
- forwards	-	-	-	-	-	-	-
- futures	12,646,474	-	1,509,474	1,362,000	3,217,000	6,558,000	-
- swaps	10,462,868	100,000	260,000	170,000	1,590,000	7,951,578	391,290
Total	30,808,757	4,028,711	4,345,500	2,538,914	4,994,764	14,509,578	391,290

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 RM340,585,000 (FYE June 2005: RM552,922,000) and RM14,197,190 (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 RM115,302,951 (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 HLFG undertaking to give HLFG 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, HLFG was deemed interested in the Proposed Acquisition and in compliance with the rules on related party transactions of the Bursa Malaysia Securities Berhad, HLFG had to abstain from voting at the extraordinary general meeting ("EGM") of HLG convened to consider the Proposed Acquisition. BSH alleged that HLFG 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. HLFG Dividends**

- (a) A first interim dividend of 8 sen per share less income tax of 28% had been declared and paid on 30 December 2005 (2004/2005: 8 sen per share less income tax of 28%).
- (b) A second interim dividend of 10 sen per share tax exempt had been declared and paid on 28 June 2006 (2004/2005: 10 sen per share tax exempt).
- (c) Total dividend for the financial period: 8 sen per share less income tax at 28% and 10 sen per share tax-exempt (2004/2005: 8 sen per share less income tax at 28% and 10 sen per share tax-exempt).

The Board does not recommended any final dividends to be paid for the financial year ended 30 June 2006 (2004/05: nil)

### 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	
	30/06/06	30/06/05	30/06/06	30/06/05
<b>Weighted Average Number Of Ordinary Shares</b>	RM'000	RM'000	RM'000	RM'000
Weighted average number of ordinary shares	1,037,101	1,040,722	1,037,101	1,040,722
Net profit attributable to shareholders of the company	145,757	122,867	405,430	372,265
<b>Basic earnings per share (Sen)</b>	<b>14.0</b>	<b>11.8</b>	<b>39.1</b>	<b>35.8</b>

	Company		Company	
	Current Quarter Ended		Financial Period Ended	
	30/06/06	30/06/05	30/06/06	30/06/05
<b>Weighted Average Number Of Ordinary Shares</b>	RM'000	RM'000	RM'000	RM'000
Weighted average number of ordinary shares	1,037,640	1,040,722	1,037,640	1,040,722
Net profit attributable to shareholders of the company	54,350	48,718	205,774	199,612
<b>Basic earnings per share (Sen)</b>	<b>5.3</b>	<b>4.7</b>	<b>19.8</b>	<b>19.2</b>

### 13. Earnings per share (continued)

#### (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.

	<b>Group</b>		<b>Group</b>	
	<b>Current Quarter Ended</b>		<b>Financial Period Ended</b>	
	<b>30/06/06</b>	<b>30/06/05</b>	<b>30/06/06</b>	<b>30/06/05</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Fully Diluted Weighted Average Number Of Ordinary Shares</b>				
Weighted average no. of shares as at end of financial period	1,037,101	1,040,722	1,037,101	1,040,722
Effect of share options	-	330	-	330
Weighted average number of ordinary shares (Diluted)	1,037,101	1,041,052	1,037,101	1,041,052
Net profit attributable to shareholders of the company	145,757	122,867	405,430	372,265
<b>Fully diluted earnings per share (Sen)</b>	<b>14.0</b>	<b>11.8</b>	<b>39.1</b>	<b>35.8</b>

	<b>Company</b>		<b>Company</b>	
	<b>Current Quarter Ended</b>		<b>Financial Period Ended</b>	
	<b>30/06/06</b>	<b>30/06/05</b>	<b>30/06/06</b>	<b>30/06/05</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Fully Diluted Weighted Average Number Of Ordinary Shares</b>				
Weighted average no. of shares as at end of financial period	1,037,640	1,040,722	1,037,640	1,040,722
Effect of share options	-	330	-	330
Weighted average number of ordinary shares (Diluted)	1,037,640	1,041,052	1,037,640	1,041,052
Net profit attributable to shareholders of the company	54,350	48,718	205,774	199,612
<b>Fully diluted earnings per share (Sen)</b>	<b>5.3</b>	<b>4.7</b>	<b>19.8</b>	<b>19.2</b>