

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2007

	As at 30/06/07 RM '000	As at 30/06/06 RM '000
THE GROUP		
<u>Assets</u>		
Cash and short term funds	16,767,686	14,762,999
Deposits and placements with financial institutions	9,290,759	1,608,526
Securities purchased under resale agreements	3,495,309	4,474,913
Securities held at fair value through profit or loss	3,525,932	3,907,027
Securities available-for-sale	5,423,563	7,760,401
Securities held-to-maturity	2,622,790	1,221,204
Loans, advances and financing	32,150,940	29,058,958
Trade receivables	407,396	183,130
Other receivables	1,048,415	614,347
Statutory deposits with Bank Negara Malaysia	1,206,939	881,524
Tax recoverable	14,648	14,442
Deferred tax asset	162,140	171,710
Property, plant and equipment	481,345	460,359
Intangible assets	588,967	542,971
Total Assets	77,186,829	65,662,511
<u>Liabilities</u>		
Deposits from customers	56,095,966	44,198,417
Deposits and placements of banks and other financial institutions	5,113,620	2,796,260
Obligations on securities sold under repurchase agreements	1,129,521	6,850,498
Bills and acceptances payable	566,251	546,209
Payables and other liabilities	2,713,181	1,347,670
Provision for claims	169,711	165,222
Provision for taxation	106,402	98,399
Bank loans	125,700	152,300
Subordinated Bonds	671,657	704,049
Syndicated loan facility	509,850	-
Long term borrowings	300,000	298,145
Insurance funds	4,043,762	3,392,400
Total Liabilities	71,545,621	60,549,569
<u>Equity</u>		
Share capital	1,052,451	1,040,722
Capital reserves	1,337,795	1,189,951
Retained profits	1,428,148	1,217,673
Fair value reserves	15,394	(42,471)
Treasury shares held for ESOS	(67,666)	(15,238)
Total shareholders' equity	3,766,122	3,390,637
Minority interest	1,875,086	1,722,305
Total Equity	5,641,208	5,112,942
Total Liabilities and Equity	77,186,829	65,662,511
Commitment and Contingencies	76,700,752	48,109,341

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007

THE GROUP	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Interest income	760,999	646,351	2,877,793	2,401,469
Interest expense	(467,968)	(369,511)	(1,710,686)	(1,397,538)
Net interest income	293,031	276,840	1,167,107	1,003,931
Income from Islamic banking business	40,671	42,369	143,827	166,711
Non interest income	219,348	230,348	677,219	658,480
Net income	553,050	549,557	1,988,153	1,829,122
Overhead expenses	(221,670)	(175,925)	(838,876)	(711,002)
Operating profit before allowances	331,380	373,632	1,149,277	1,118,120
Allowance for losses on loans, advances and financing	(6,577)	(94,013)	(161,750)	(249,099)
Impairment loss	(1,825)	(6,531)	(1,825)	(9,709)
Profit before taxation and zakat	322,978	273,088	985,702	859,312
Taxation	(81,958)	(70,516)	(264,062)	(243,198)
Zakat	(5)	(9)	(35)	(49)
Net profit for the period	241,015	202,563	721,605	616,065
Attributable to :				
Equity holders of the company	176,504	145,757	487,969	405,430
Minority interests	64,511	56,806	233,636	210,635
Net profit for the period	241,015	202,563	721,605	616,065
Basic earnings per ordinary share (sen)	17.0	14.0	47.0	39.1
Diluted earnings per ordinary share (sen)	17.0	14.0	47.0	39.1

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED COMPANY BALANCE SHEETS AS AT 30 JUNE 2007

	As at 30/06/07 RM '000	As at 30/06/06 RM '000
THE COMPANY		
<u>Assets</u>		
Cash and short term funds	16,476	46,975
Securities held at fair value through profit or loss	7	-
Other receivables	8,970	7,731
Tax recoverable	13,823	12,269
Investment in subsidiaries	2,048,349	2,049,249
Property, plant and equipment	4,136	1,636
Intangible assets	20	21
Total Assets	2,091,781	2,117,881
<u>Liabilities</u>		
Payables and other liabilities	22,815	20,800
Bank loans	111,000	120,300
Long term borrowings	300,000	298,145
Total Liabilities	433,815	439,245
<u>Financed by:</u>		
Share capital	1,052,451	1,040,722
Capital reserves	135,653	89,700
Retained profits	535,612	561,536
Treasury shares held for ESOS	(65,750)	(13,322)
Total Equity	1,657,966	1,678,636
Total Liabilities and Equity	2,091,781	2,117,881
Commitment and Contingencies	-	-

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
CONDENSED FINANCIAL STATEMENTS
AUDITED COMPANY INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007

THE COMPANY	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Interest income	164	536	360	975
Interest expense	(5,681)	(5,404)	(22,979)	(21,589)
Net interest expense	(5,517)	(4,868)	(22,619)	(20,614)
Non interest income	1,570	76,047	237,523	315,427
Net income	(3,947)	71,179	214,904	294,813
Overhead expenses	(4,971)	(2,108)	(13,030)	(7,395)
Profit before taxation and zakat	(8,918)	69,071	201,874	287,418
Taxation	7,655	(14,721)	(55,007)	(81,644)
Net profit for the period	(1,263)	54,350	146,867	205,774
Basic earnings per ordinary share (sen)	(0.1)	5.3	14.1	19.8
Diluted earnings per ordinary share (sen)	(0.1)	5.3	14.1	19.8

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007

THE GROUP FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007	Share Capital RM '000	Share Premium RM '000	Statutory Reserves RM '000	Other Capital		Fair Value Reserves RM '000	Exchange Fluctuation Reserves RM '000	Retained Profits RM '000	Treasury Shares RM '000	Total Shareholders' Equity RM '000		Total Equity RM '000
				General Reserves RM '000	Reserves & Reserves RM '000					Shareholders' Equity RM '000	Minority Interests RM '000	
Opening balance as at 1 July 2006	1,040,722	71,216	963,166	133,258	-	(42,471)	22,311	1,217,673	(15,238)	3,900,637	1,722,305	5,112,942
Prior year adjustment	1,040,722	71,216	963,166	133,258	-	(42,471)	22,311	1,217,673	(15,238)	3,900,637	1,722,305	5,112,942
Restated opening balance as at 1 July 2006	-	-	-	-	-	-	(2,812)	-	-	(2,812)	-	(2,812)
Exchange fluctuation differences	-	-	-	-	-	-	-	-	-	-	-	-
Net fair value changes in available-for-sale securities	-	-	-	-	-	57,865	-	-	-	57,865	-	57,865
Net income/(expense) recognised directly in equity	-	-	-	-	-	57,865	(2,812)	-	-	55,053	-	55,053
Net profit for financial period	-	-	-	-	-	-	-	487,969	-	487,969	233,636	721,605
Total recognised income/(expense) for the period	-	-	-	-	-	57,865	(2,812)	487,969	-	543,022	233,636	776,658
Issue of shares arising from the exercise of Warrants 1997/2007	11,729	44,801	-	-	-	-	-	-	-	56,530	-	56,530
Allocation of other reserves to minority interests	-	-	-	-	-	-	-	(104,703)	-	-	(80,855)	(80,855)
Transfer to statutory reserves	-	-	104,703	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-
- 1st interim dividend	-	-	-	-	-	-	-	(67,502)	-	(67,502)	-	(67,502)
- 2nd interim dividend	-	-	-	-	-	-	-	(105,289)	-	(105,289)	-	(105,289)
Option reserves arising from ESOS	-	-	-	1,152	-	-	-	-	-	1,152	-	1,152
Treasury Shares held for ESOS	-	-	-	-	-	-	-	-	(52,428)	(52,428)	-	(52,428)
AT 30 JUNE 2007	1,052,451	116,017	1,067,869	134,410	15,394	19,499	1,428,148	3,766,122	1,875,086	5,641,208	5,641,208	5,641,208

FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006	Share Capital RM '000	Share Premium RM '000	Statutory Reserves RM '000	Other Capital		Fair Value Reserves RM '000	Exchange Fluctuation Reserves RM '000	Retained Profits RM '000	Treasury Shares RM '000	Total Shareholders' Equity RM '000		Total Equity RM '000
				General Reserves RM '000	Reserves & Reserves RM '000					Shareholders' Equity RM '000	Minority Interests RM '000	
Opening balance as at 1 July 2005	1,040,722	71,216	870,813	133,258	-	9,397	26,226	1,069,534	-	3,211,769	1,685,166	4,896,935
Prior year adjustment	1,040,722	71,216	870,813	133,258	-	9,397	26,226	1,068,614	(1,916)	3,218,330	1,686,893	4,905,223
Restated opening balance as at 1 July 2005	-	-	-	-	-	-	(3,915)	-	-	(3,915)	-	(3,915)
Exchange fluctuation differences	-	-	-	-	-	(51,868)	-	-	-	(51,868)	-	(51,868)
Net income/(expense) recognised directly in equity	-	-	-	-	-	(51,868)	(3,915)	-	-	(55,783)	-	(55,783)
Net profit for financial period	-	-	-	-	-	-	-	405,430	-	405,430	210,635	616,065
Total recognised income/(expense) for the period	-	-	-	-	-	(51,868)	(3,915)	405,430	-	349,647	210,635	560,282
Transfer to statutory reserves	-	-	92,353	-	-	-	-	(92,353)	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-
- 1st interim dividend	-	-	-	-	-	-	-	(59,946)	-	(59,946)	-	(59,946)
- 2nd interim dividend	-	-	-	-	-	-	-	(104,072)	-	(104,072)	-	(104,072)
Treasury Shares held for ESOS	-	-	-	-	-	-	-	-	(13,322)	(13,322)	-	(13,322)
Allocation of other reserves to minority interests	-	-	-	-	-	-	-	-	-	-	(175,223)	(175,223)
AT 30 JUNE 2006	1,040,722	71,216	963,166	133,258	(42,471)	22,311	1,217,673	3,900,637	(15,238)	1,722,305	1,722,305	5,112,942

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
AUDITED COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007

FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007	Share Capital RM '000	Share Premium RM '000	Other Capital Reserves & General Reserves RM '000	Retained Profits RM '000	Treasury Shares RM '000	Total Equity RM '000
Opening balance as at 1 July 2006	1,040,722	71,216	18,484	561,536	(13,322)	1,678,636
Net profit for the financial period	-	-	-	146,867	-	146,867
Total recognised income/(expense) for the period	-	-	-	146,867	-	146,867
Issue of shares arising from the exercise of Warrants 1997/2007	11,729	44,801	-	-	-	56,530
Dividend paid	-	-	-	(67,502)	-	(67,502)
- 1st interim dividend	-	-	-	(105,289)	-	(105,289)
- 2nd interim dividend	-	-	-	-	-	-
Option reserves arising from ESOS	-	-	1,152	-	-	1,152
Treasury Shares held for ESOS	-	-	-	-	(52,428)	(52,428)
AT 30 JUNE 2007	1,052,451	116,017	19,636	535,612	(65,750)	1,657,966

FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006	Share Capital RM '000	Share Premium RM '000	Other Capital Reserves & General Reserves RM '000	Retained Profits RM '000	Treasury Shares RM '000	Total Equity RM '000
Opening balance as at 1 July 2005	1,040,722	71,216	18,484	519,780	-	1,650,202
Net profit for the financial period	-	-	-	205,774	-	205,774
Total recognised income/(expense) for the period	-	-	-	205,774	-	205,774
Dividend paid	-	-	-	(59,946)	-	(59,946)
- 1st interim dividend	-	-	-	(104,072)	-	(104,072)
- 2nd interim dividend	-	-	-	-	-	-
Treasury Shares held for ESOS	-	-	-	-	(13,322)	(13,322)
AT 30 JUNE 2006	1,040,722	71,216	18,484	561,536	(13,322)	1,678,636

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
AUDITED CONSOLIDATED CASH FLOW STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007

THE GROUP

Cash flows from operating activities

	30/06/07 RM '000	30/06/06 RM '000
Profit before taxation and zakat	985,702	859,312
Adjustments for :		
Non-cash items and others	579,584	525,267
Operating profit before working capital changes	<u>1,565,286</u>	<u>1,384,579</u>
Increase in assets / receivables	(10,429,958)	2,722,455
Increase in liabilities / payables	9,782,048	3,290,251
	<u>(647,910)</u>	<u>6,012,706</u>
Cash used in operations	917,376	7,397,285
Income tax paid	(302,621)	(225,990)
Interest received	360	975
	<u>(302,261)</u>	<u>(225,015)</u>
Net cash used in operating activities	615,115	7,172,270
Cash flow from investing activities		
Net (purchases)/proceeds of securities available-for-sale	2,471,333	(4,344,326)
Net (purchases)/proceeds of securities held-to-maturity	(1,421,452)	(111,758)
Interest received on securities available-for-sale and held-to-maturity	247,493	241,244
Dividends received on securities available-for-sale and held-to-maturity	11,632	7,972
Proceeds from disposal of property, plant and equipment	4,508	3,757
Purchase of property, plant and equipment	(85,113)	(46,489)
Purchase of intangible assets	(21,170)	(29,972)
Acquisition of additional shares in subsidiary by minority interest	35,000	-
Net cash generated from investing activities	1,242,231	(4,279,572)
Cash flow from financing activities		
Drawdown/(Repayment) of borrowings	(26,600)	(48,700)
Repayments of term loans	-	(70,000)
Dividends paid to minority interest	(90,598)	(99,858)
Dividends paid to shareholders of the Company	(172,791)	(164,018)
Purchase of treasury shares in subsidiary company	(92,180)	(61,235)
Purchase of ESOS shares	(52,428)	(13,322)
Net proceeds from issuance of syndicated short term loan	507,745	-
Proceed from exercise of Warrant 1997/2007	56,530	-
Interest paid on short term borrowings	(19,495)	(5,282)
Interest paid on long term borrowings	(17,698)	(15,771)
Interest paid on subordinated obligations	(35,510)	(16,535)
Issuance of medium term notes and commercial papers	-	96,619
Net proceeds from issuance of subordinated notes	-	685,495
Net cash generated from financing activities	56,975	287,393
Net decrease in cash and cash equivalents	1,914,321	3,180,091
Cash and cash equivalents as at 1 July	14,732,283	11,556,472
Effect of change in foreign exchange rate	(2,568)	(4,280)
Cash and cash equivalents as at 30 June	16,644,036	14,732,283
Analysis of cash and cash equivalents as at 30 June		
Cash and short term funds	16,767,686	14,762,999
Less: Remisiers' and clients' trust monies	(123,650)	(30,716)
	<u>16,644,036</u>	<u>14,732,283</u>

HONG LEONG FINANCIAL GROUP BERHAD (8024-W)
AUDITED COMPANY CASH FLOW STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007

<u>COMPANY</u>	30/06/07 RM '000	30/06/06 RM '000
Cash flows from operating activities		
Profit before taxation and zakat	201,874	287,418
<u>Adjustments for :</u>		
Non-cash items and others	(254,705)	(292,200)
Operating profit before working capital changes	(52,831)	(4,782)
Increase in assets / receivables	(571)	(963)
Increase in liabilities / payables	46,580	9,931
Cash used in operations	(6,822)	4,186
Income tax refund	6,100	8,106
Interest received	360	975
Net cash used in operating activities	(362)	13,267
Cash flow from investing activities		
Purchase of property, plant and equipment	(3,316)	(630)
Purchase of intangible assets	(31)	(24)
Dividend received from investment	850	-
Dividend received from subsidiary	169,418	225,488
Redemption of Redeemable Preference Shares by subsidiary	900	-
Proceed from disposal of property, plant and equipment	-	4
Proceed from disposal of investment	-	142
Purchase of additional investment in subsidiary company	-	(2,016)
Net cash generated from investing activities	167,821	222,964
Cash flow from financing activities		
Dividends paid	(172,791)	(164,018)
Purchase of ESOS shares	(52,428)	(13,322)
Drawdown/(Repayment) of revolving credit	(9,300)	(40,700)
Proceeds from exercise of warrants 1997/2007	56,530	-
Interest paid on short term borrowings	(5,920)	(3,826)
Interest paid on long term borrowings	(14,049)	(15,032)
Issuance of medium term notes and commercial papers	-	96,619
Drawdown/(Repayment) of term loans	-	(70,000)
Net cash generated from financing activities	(197,958)	(210,279)
Net decrease in cash and cash equivalents	(30,499)	25,952
Cash and cash equivalents as at 1 July	46,975	21,023
Cash and cash equivalents as at 30 June	16,476	46,975

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG” or “the Company”)
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2007**

1. Basis of preparation

The condensed financial statements of the Group have been prepared in accordance with Financial Reporting Standard (“FRS”) 134: Interim Financial Reporting (previously known as MASB 26) issued by the Malaysian Accounting Standard Board (“MASB”), Chapter 9, Part K of the Listing Requirements of the Bursa Malaysia Securities Berhad and revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by Bank Negara Malaysia and should be read in conjunction with the Group’s audited annual financial statements for the year ended 30 June 2006.

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 changes in accounting policies and presentation which are expected to be reflected in the financial statements for the financial year ending 30 June 2007 resulting from the adoption of applicable FRSs adopted by Malaysian Accounting Standards Board that are effective for the financial year beginning 1 July 2006 as follows:-

FRS 2	-	Share-based Payment
FRS 3	-	Business Combinations
FRS 5	-	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	-	Presentation of Financial Statements
FRS 108	-	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	-	Events After the Balance Sheet Date
FRS 116	-	Property, Plant and Equipment
FRS 121	-	The Effect of Changes in Foreign Exchange Rates
FRS 127	-	Consolidated and Separate Financial Statements
FRS 132	-	Financial Instruments : Disclosure and Presentation
FRS 133	-	Earnings Per Share
FRS 136	-	Impairment of Assets
FRS 138	-	Intangible Assets
FRS 140	-	Investment Property

The adoption of FRSs 5, 108, 110, 116, 121, 127, 132, 133 and 140 do not have any significant financial impact on the Group. The principal effect of the changes in accounting policies resulting from the adoption of other new and revised FRSs are disclosed in Note 30.

2. Status of matters giving rise to the auditor’s qualified report in the annual financial statement for the financial year ended 30 June 2006 of HLFGB

There was no qualified report issued by the auditors in the annual financial statements for the financial year ended 30 June 2006.

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 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 HLFM for the financial year ended 30 June 2007 other than as mentioned below.

Exercise of Warrants 1997/2007

During the financial year, the issued and paid-up share capital of the Company was increased from 1,040,722,242 ordinary shares of RM1.00 each to 1,052,450,562 ordinary shares of RM1.00 each by the issue of 11,729,000 new ordinary shares of RM1.00 each at RM4.82 per share arising from the exercise of 11,729,000 Warrants 1997/2007 of the Company. The resulting share premium amounting to RM44,801,000 has been credited to share premium account.

Purchase of shares pursuant to ESOS

A trust has been set up for the ESOS of HLFM 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 held for ESOS" in the Shareholders' Equity on the Balance Sheet. As at 30 June 2007, the number of shares bought by the appointed trustee was 14,461,408 at an average price of RM4.55 and the total consideration paid, including transaction costs was RM65,749,757.

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 held for ESOS at the Group level.

During the financial year ended 30 June 2007, the Company granted 12,500,000 conditional incentive share options to eligible executives of the Company pursuant to the ESOS of HLFM subject to the achievement of certain performance criteria over an option performance period.

7. Dividends paid

- (i) A first interim dividend of 9 sen per share less income tax, amounting to RM67,502,000 in respect of the financial year ended 30 June 2007 was paid on 18 December 2006 (2005/2006 : 8 sen per share less income tax).
- (ii) A second interim dividend of 14 sen per share less income tax, amounting to RM105,289,000 in respect of the financial year ended 30 June 2007 was paid on 28 June 2007 (2005/2006 : 10 sen per share tax exempt).
- (iii) Total dividend paid for the financial year ended 30 June 2007 : 23 sen per share less tax (2005/2006 : 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

GROUP 30 JUNE 2007	Securities & Asset					Consolidated RM'000
	Banking RM'000	Management RM'000	Insurance RM'000	Others RM'000	Eliminations RM'000	
Revenue for the year ended						
External sales	1,737,961	68,431	194,804	(13,043)	-	1,988,153
Intersegment sales	30,229	6,500	4,999	6,938	(48,666)	-
	<u>1,768,190</u>	<u>74,931</u>	<u>199,803</u>	<u>(6,105)</u>	<u>(48,666)</u>	<u>1,988,153</u>
Results for the year ended						
Segment results	856,598	37,872	120,123	211,368	(240,259)	985,702
Profit before taxation and zakat						<u>985,702</u>
Taxation and zakat						<u>(264,097)</u>
Profit after taxation						<u>721,605</u>
Minority interest						<u>(233,636)</u>
Net profit for the year						<u>487,969</u>
Other information						
Segment assets	71,258,778	519,484	5,208,509	50,437	(45,445)	76,991,763
Other corporate assets						195,066
Total consolidated assets						<u>77,186,829</u>
Segment liabilities	66,765,032	363,220	4,605,502	30,295	(644,130)	71,119,919
Other corporate liabilities						425,702
Total consolidated liabilities						<u>71,545,621</u>
Capital expenditure	89,620	1,607	6,254	3,331	-	100,812
Depreciation	49,831	952	7,066	3,463	-	61,312
Loan loss and other allowances	161,750	-	-	-	-	161,750

GROUP 30 JUNE 2006	Securities & Asset					Consolidated RM'000
	Banking RM'000	Management RM'000	Insurance RM'000	Others RM'000	Eliminations RM'000	
Revenue for the year ended						
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>
Results for the year ended						
Segment results	764,241	27,819	91,906	288,658	(313,312)	859,312
Profit before taxation and zakat						<u>859,312</u>
Taxation and zakat						<u>(243,247)</u>
Profit after taxation						<u>616,065</u>
Minority interest						<u>(210,635)</u>
Net profit for the year						<u>405,430</u>
Other information						
Segment assets	60,422,949	239,897	4,244,560	73,134	508,508	65,489,048
Other corporate assets						<u>173,463</u>
Total consolidated assets						<u>65,662,511</u>
Segment liabilities	56,129,744	84,397	3,890,744	27,637	(119,108)	60,013,414
Other corporate liabilities						<u>536,155</u>
Total consolidated liabilities						<u>60,549,569</u>
Capital expenditure	66,228	1,316	7,871	1,046	-	76,461
Depreciation	53,463	1,310	6,515	581	-	61,869
Loan loss and other allowances	249,099	-	-	-	-	249,099

9. Securities held at fair value through profit or loss

	Group	
	As at 30/06/07	As at 30/06/06
	RM '000	RM '000
<u>At Fair Value</u>		
Malaysian Government Treasury Bills	102,211	24,652
Malaysian Government Securities	125,232	246,604
Negotiable instruments of deposit	111,395	2,592,938
Bankers' acceptances and Islamic accepted bills	1,132,891	15,312
Bank Negara Malaysia bills	1,506,638	69,158
Malaysian Government Investment Certificates	55,066	-
Cagamas bonds/notes	79,045	742,369
	3,112,478	3,691,033
Quoted securities :		
Shares/Loan stocks/Unit Trust	166,968	62,419
Foreign currency bonds	1,790	54,994
Unquoted securities :		
Syndicated bond	38,619	-
Private debt securities	200,825	82,826
<u>Others designated at fair value through P&L</u>		
Loan stock quoted in Malaysia	5,252	15,755
	3,525,932	3,907,027
Total securities held at fair value through profit and loss	3,525,932	3,907,027

	Company	
	As at 30/06/07	As at 30/06/06
	RM '000	RM '000
<u>At Fair Value</u>		
Unit Trust	7	-
	7	-

10. Securities available-for-sale

	Group	
	As at 30/06/07	As at 30/06/06
	RM '000	RM '000
<u>At Fair Value</u>		
Government Treasury Bills	388,695	256,703
Malaysian Government Securities	1,877,863	3,069,429
Malaysian Government Investment Certificates	-	24,615
Negotiable instruments of deposit	20,000	-
Cagamas bonds	854,177	1,539,632
Other Government Securities	8,715	23,561
	3,149,450	4,913,940
Quoted securities :		
Shares/Loan stocks/Unit Trust	584,697	610,539
Foreign Currency Bonds	63,857	1,003,278
Unquoted securities :		
Private debt securities/shares/reits	1,625,559	1,232,644
	5,423,563	7,760,401
Total securities available-for-sale	5,423,563	7,760,401

11. Securities held-to-maturity

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
<u>At Amortised Cost</u>		
Malaysian Government Securities	107,353	248,194
Malaysian Government Investment Certificates	171,059	155,866
Negotiable instruments of deposit	1,781,273	-
Cagamas bonds	275,033	440,359
Khazanah bonds	-	4,875
	2,334,718	849,294
Quoted securities :		
Foreign Currency Bonds	10,242	11,039
Unquoted securities :		
Private debt securities/shares/loan stocks	277,830	360,871
Total securities held-to-maturity	2,622,790	1,221,204

12. Loans, advances and financing

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Overdrafts	2,624,460	2,959,945
Term loans :		
- Housing loans/financing	16,559,484	13,687,545
- Syndicated term loan/financing	1,526,094	1,270,824
- Hire purchase receivables	5,695,681	6,166,419
- Lease receivables	29,374	19,450
- Other term loans/financing	1,721,550	1,601,129
Credit/charge card receivables	1,667,901	1,204,604
Bills receivables	310,842	479,948
Trust receipts	150,249	153,710
Claims on customers under acceptance credits	3,023,892	2,478,691
Block discounting	18,480	19,540
Revolving credits	783,949	635,503
Policy and premium loans	496,151	440,090
Staff loans	112,360	117,073
Other loans/financing	53,354	61,966
	34,773,821	31,296,437
Unearned interest and income	(1,760,915)	(1,327,429)
	33,012,906	29,969,008
Fair value changes arising from fair value hedges	32,540	-
Allowance for bad and doubtful debts and financing :		
- general	(481,746)	(436,233)
- specific	(412,760)	(473,817)
Net loans, advances and financing	32,150,940	29,058,958

12. Loans, advances and financing (continued)

(a) By type of customer

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Domestic banking institutions	320	149
Domestic non-bank financial institutions	159,547	123,561
Domestic business enterprises		
- Small and medium enterprises	3,351,870	3,746,882
- Others	6,172,934	5,776,117
Government and statutory bodies	91,102	114,638
Individuals	21,998,311	19,249,310
Other domestic entities	41,907	29,113
Foreign entities	1,196,915	929,238
Gross loans, advances and financing	33,012,906	29,969,008

(b) By interest/profit rate sensitivity

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Fixed rate		
- Housing loans/financing	3,512,263	3,665,259
- Hire purchase receivables	4,942,068	5,476,042
- Other fixed rate loan/financing	3,084,586	2,311,124
Variable rate		
- Base lending rate plus	17,829,234	15,195,330
- Cost plus	3,582,814	3,223,618
- Other variables rates	61,941	97,635
Gross loans, advances and financing	33,012,906	29,969,008

(c) By economic purpose

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Purchase of securities	582,681	713,374
Purchase of transport vehicles	4,469,163	4,703,092
Purchase of landed properties		
- residential	12,136,525	10,559,272
- non-residential	3,926,088	3,366,592
Personal use	2,114,929	1,369,847
Credit card	1,667,901	1,204,604
Purchase of consumer durables	157	427
Construction	565,931	641,347
Working capital	6,961,765	6,856,981
Others	587,766	553,472
Gross loans, advances and financing	33,012,906	29,969,008

12. Loans, advances and financing (continued)

(d) Non-performing loans by purpose

	Group	
	As at	As at
	30/06/07	30/06/06
	RM '000	RM '000
Purchase of securities	21,229	33,461
Purchase of transport vehicles	86,393	106,304
Purchase of landed properties		
- residential	289,258	337,411
- non-residential	102,970	167,468
Personal use	44,580	37,436
Credit card	26,674	26,306
Purchase of consumer durables	154	5,429
Construction	55,039	104,820
Working capital	407,083	563,348
Gross loans, advances and financing	<u>1,033,380</u>	<u>1,381,983</u>

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

	Group	
	As at	As at
	30/06/07	30/06/06
	RM '000	RM '000
At beginning	1,381,983	1,657,683
Non-performing during the period/year	3,008,575	3,251,908
Reclassified as performing	(2,640,341)	(2,757,428)
Amount written back in respect of recoveries	(465,517)	(481,955)
Amount written off	(249,843)	(289,745)
Exchange differences	(1,477)	1,520
Closing balance	1,033,380	1,381,983
Specific allowance	(412,760)	(473,817)
Net non-performing loans, advances and financing	<u>620,620</u>	<u>908,166</u>
Net NPL as a % of gross loans, advances and financing less specific allowance	<u>1.9%</u>	<u>3.1%</u>

12. Loans, advances and financing (continued)

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

	Group	
	As at 30/06/07	As at 30/06/06
	RM '000	RM '000
<u>General Allowance</u>		
At beginning	436,233	412,877
Net allowance made during the period/year	45,805	23,057
Exchange differences	(292)	299
Closing balance	<u>481,746</u>	<u>436,233</u>
As % of gross loans, advances and financing less specific allowance	<u>1.5%</u>	<u>1.5%</u>
<u>Specific Allowance</u>		
At beginning	473,817	465,254
Allowance made during the period/year	296,243	386,511
Amount written back in respect of recoveries	(106,256)	(89,250)
Amount written off	(250,137)	(289,746)
Exchange differences	(907)	1,048
Closing balance	<u>412,760</u>	<u>473,817</u>

13. Other receivables

	Group	
	As at 30/06/07	As at 30/06/06
	RM '000	RM '000
Interest/Income receivable	217,315	199,489
Investment properties	1,280	1,291
Other debtors, deposits and prepayments	826,001	409,748
Assets held for sale	810	810
Foreclosed properties	3,009	3,009
	<u>1,048,415</u>	<u>614,347</u>

	Company	
	As at 30/06/07	As at 30/06/06
	RM '000	RM '000
Amount due from subsidiary companies	6,117	7,081
Amount due from related companies	267	284
Other debtors, deposits and prepayments	2,586	366
	<u>8,970</u>	<u>7,731</u>

14. Deposits from customers

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Fixed deposits	29,279,540	27,066,053
Negotiable instruments of deposit	3,247,184	6,229,198
Demand deposits	4,947,287	4,255,913
Savings deposits	7,117,265	6,402,925
Short term corporate placement	11,293,502	-
Other	211,188	244,328
	56,095,966	44,198,417

The maturity structure of fixed deposits and negotiable instruments :

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
One year or less (short term)	31,694,339	32,691,507
More than one year (medium/long term)	832,385	603,744
	32,526,724	33,295,251

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

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Government and statutory bodies	362,135	650,612
Business enterprises	24,050,312	14,592,305
Individuals	30,054,518	27,055,017
Others	1,629,001	1,900,483
	56,095,966	44,198,417

15. Deposits and placements of banks and other financial institutions

	Group	
	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Licensed banks	5,038,620	2,494,760
Other financial institutions	75,000	301,500
	5,113,620	2,796,260

The maturity structure :

One year or less (short term)	5,113,620	2,796,260
More than one year (medium/long term)	-	-
	5,113,620	2,796,260

16. Payables and other liabilities

	Group	
	As at	As at
	30/06/07	30/06/06
	RM '000	RM '000
Trade payables	537,852	294,336
Amount due to related companies	2,853	1,293
Other payables and accrued liabilities	1,772,207	729,316
Interest payable	394,444	316,990
Post employment benefits obligations - defined contribution plan	5,825	5,735
	<u>2,713,181</u>	<u>1,347,670</u>

	Company	
	As at	As at
	30/06/07	30/06/06
	RM '000	RM '000
Amount due to subsidiary companies	10,236	9,732
Other payables and accrued liabilities	5,417	5,186
Interest payable	7,091	5,817
Post employment benefits obligations - defined contribution plan	71	65
	<u>22,815</u>	<u>20,800</u>

17. Interest income

	Group		Group	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Loan, advances and financing				
- Interest income other than recoveries from NPLs	384,737	309,924	1,452,826	1,196,133
- recoveries from NPLs	37,023	47,905	150,165	184,550
Money at call and deposit placements with financial institutions	256,651	143,775	796,071	462,670
Securities purchased under resale agreement	37,212	43,994	118,208	215,115
Securities held at fair value through profit and loss	(3,269)	40,958	129,393	136,473
Securities available-for-sale	29,561	62,661	162,349	212,655
Securities held-to-maturity	19,941	6,402	85,144	28,589
Others	2,273	(1,865)	9,786	6,115
	<u>764,129</u>	<u>653,754</u>	<u>2,903,942</u>	<u>2,442,300</u>
Amortisation of premium less accretion of discount	(2,687)	(13,232)	(18,989)	(32,945)
Interest suspended	(443)	5,829	(7,160)	(7,886)
	<u>760,999</u>	<u>646,351</u>	<u>2,877,793</u>	<u>2,401,469</u>

	Company		Company	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Money at call and deposit placements with financial institutions	164	536	360	975
Others	-	-	-	-
	<u>164</u>	<u>536</u>	<u>360</u>	<u>975</u>

18. Interest expense

	Group		Group	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Deposits and placements of banks and other financial institutions	46,279	85,516	291,147	316,260
Deposits from customers	307,798	268,151	1,224,646	1,021,239
Borrowings	5,554	6,192	23,721	23,784
Subordinated bonds	8,547	9,508	35,551	35,089
Short term corporate placements	91,876	-	116,118	-
Others	7,914	144	19,503	1,166
	<u>467,968</u>	<u>369,511</u>	<u>1,710,686</u>	<u>1,397,538</u>
	Company		Company	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Borrowings	5,681	5,404	22,979	21,589
Others	-	-	-	-
	<u>5,681</u>	<u>5,404</u>	<u>22,979</u>	<u>21,589</u>

19. Non Interest Income

	Group		Group	
	Current quarter ended 30/06/07 RM '000	30/06/06 RM '000	Twelve months ended 30/06/07 RM '000	30/06/06 RM '000
Net income from Insurance Business	80,670	83,346	134,743	144,048
Net brokerage and commissions from Stockbroking Business	11,516	11,016	40,398	25,243
Net unit trust and asset management income	5,987	9,152	21,254	26,796
Fee income:				
Management fees	145	-	1,070	-
Commissions	9,501	18,223	77,415	67,635
Service charges and fees	19,295	15,420	55,716	42,461
Guarantee fees	1,332	1,431	5,385	5,656
Other fee income	21,920	47,308	132,041	161,495
	52,193	82,382	271,627	277,247
Gain/(loss) arising from sale of securities:				
Net gain from sale of securities held at fair value through profit and loss and derivatives	38,668	(2,997)	78,708	17,269
Net gain from sale of securities available-for-sale	5,808	(10,727)	50,969	23,303
Net gain/(loss) from redemption of securities held-to-maturity	1	-	948	4,277
	44,477	(13,724)	130,625	44,849
Gross dividend income from:				
Securities held at fair value through profit and loss	2,488	1,060	5,099	1,350
Securities available-for-sale	1,507	1,605	5,532	6,138
Securities held-to-maturity	677	1,093	1,001	1,834
	4,672	3,758	11,632	9,322
Net unrealised gains/(losses) on revaluation of securities held at fair value through profit and loss and derivatives	10,989	49,249	(8,145)	58,425
Net realised gains/(losses) on fair value changes arising from fair value hedge	(4,700)	1,986	(17,157)	1,649
Net unrealised gains/(losses) on fair value changes arising from fair value hedges	(4,663)	(1,382)	(6,368)	(1,733)
Other income:				
Foreign exchange gain/(loss)	8,837	7,859	72,469	62,412
Rental income	182	400	553	535
Gain/(loss) on disposal of property and equipment	139	101	557	671
Profit from Takaful investments	918	-	1,026	-
Others	8,131	(3,795)	24,005	9,016
	18,207	4,565	98,610	72,634
Total non interest income	219,348	230,348	677,219	658,480

19. Non Interest Income (continued)

	Company		Company	
	Current quarter ended 30/06/07 RM '000	30/06/06 RM '000	Twelve months ended 30/06/07 RM '000	30/06/06 RM '000
Fee income:				
Management fees	1,183	1,781	4,221	2,006
Gain/(loss) arising from sale of securities:				
Net gain from sale of securities held at fair value through profit and loss	170	-	170	-
Gross dividend income from:				
Securities held at fair value through profit and loss	850	-	850	-
Subsidiary companies	-	74,167	232,081	313,178
Unrealised gain/(loss) on revaluation of securities held at fair value through profit and loss and derivatives	(73)	-	-	-
Other income:				
Others	(560)	99	201	243
Total non interest income	1,570	76,047	237,523	315,427

20. Overhead expenses

	Group		Group	
	Current quarter ended 30/06/07 RM '000	30/06/06 RM '000	Twelve months ended 30/06/07 RM '000	30/06/06 RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	106,367	68,093	394,877	313,298
- Others	11,662	13,001	40,697	33,648
<u>Establishment costs</u>				
- Depreciation	9,652	18,506	61,312	61,869
- Rental	1,305	887	32,762	26,959
- Information technology expenses	16,316	11,283	45,298	34,722
- Others	30,158	12,423	58,142	56,804
<u>Marketing expenses</u>				
- Advertisement and publicity	16,739	(8,869)	47,209	16,067
- Handling fees	3,791	2,436	13,564	16,549
- Others	13,685	10,055	46,859	31,176
<u>Administration and general expenses</u>				
- Teletransmission expenses	4,106	2,658	11,287	8,920
- Stationery & printing	6,598	5,886	18,457	17,794
- Others	1,291	39,566	68,412	93,196
	221,670	175,925	838,876	711,002

20. Overhead expenses (continued)

	Company		Company	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
<u>Personnel costs</u>				
- Salaries, allowances and bonuses	2,563	1,135	7,744	3,960
- Others	1,192	194	1,338	585
<u>Establishment costs</u>				
- Depreciation	178	132	802	493
- Rental	188	184	668	411
- Others	(36)	-	141	148
<u>Administration and general expenses</u>				
- Teletransmission expenses	13	7	47	26
- Stationery & printing	15	10	36	38
- Others	858	446	2,254	1,734
	<u>4,971</u>	<u>2,108</u>	<u>13,030</u>	<u>7,395</u>

21. Allowance for losses on loans, advances and financing

	Group		Group	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Allowance for bad and doubtful debts and financing:				
- general allowance (net)	18,047	21,391	45,805	23,057
- specific allowance	41,781	115,264	296,243	386,511
- specific allowance written back	(34,718)	(22,377)	(106,256)	(89,250)
Bad debts and financing written off	3,285	1,814	8,331	7,640
Bad debts and financing recovered	(21,818)	(22,079)	(82,373)	(78,859)
	<u>6,577</u>	<u>94,013</u>	<u>161,750</u>	<u>249,099</u>

The Bank has also adopted the "Loss Given Default" (LGD) approach as the basis to determine the percentage reduction of the force sale value or valuation for the collateral of non-performing loans (NPLs) secured on properties for the following two categories:

- NPLs aged 5 years to 7 years and
- NPLs aged 7 years and above

The Bank uses the LGD data which is derived from the historical data of the Bank to arrive at the level of provisioning required.

22. Capital adequacy

BNM guidelines require the Banking subsidiaries to maintain a certain minimum level of capital funds against the "risk-weighted" value of the assets and certain commitments and contingencies. The capital funds of the Banking subsidiaries as at 30 June 2007 and 30 June 2006 met the minimum requirement.

	As at 30/06/07 RM '000	As at 30/06/06 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	1,369,223	1,170,005
Other Reserves	1,830,677	1,661,766
Less : Treasury Shares	(695,111)	(491,025)
Less : Deferred Tax	(164,961)	(173,301)
Add : Minority interest	43,655	-
Total tier 1 capital	4,503,254	4,287,216
Tier - 2 capital		
General provision	481,746	436,233
Subordinated obligations	682,800	734,900
Total tier 2 capital	1,164,546	1,171,133
Total capital base	5,667,800	5,458,349
<u>Before deducting proposed dividends</u>		
Core Capital Ratio	13.34%	13.76%
Risk-weighted Capital Ratio	16.79%	17.52%
<u>After deducting proposed dividends</u>		
Core Capital Ratio	12.84%	13.24%
Risk-weighted Capital Ratio	16.29%	17.00%

23. Events after Balance Sheet date

There were no material events subsequent to the financial year ended 30 June 2007.

24. 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:

- a. On 25 March 2005, HLFV announced that its wholly-owned subsidiary, Heritage Vest (M) Sdn Bhd, was placed under Member's Voluntary Winding-up pursuant to Section 254(1) of the Companies Act, 1965. The liquidation is pending completion.
- b. On 29 June 2006, Hong Leong Bank Berhad announced that HLB Ventures Sdn Bhd ("HLBV"), Chew Geok Lin Nominees (Tempatan) Sdn Bhd ("CGLN(T)", Chew Geok Lin Nominees (Asing) Sdn Bhd ("CGLN(A)") and Wah Tat Properties Sdn Bhd ("WTP") were placed under Member's Voluntary Winding-up pursuant to Section 254(1) of the Companies Act, 1965.

On 9 May 2007, the Bank further announced that the Liquidator of HLBV, CGLN(T) and CGLN(A) had convened Final Meetings to conclude the Member's Voluntary Liquidation of HLBV, CGLN(T) and CGLN(A).

Returns by the Liquidator Relating to the Final Meetings were lodged on 9 May 2007 with the Companies Commission of Malaysia and the Official Receiver, and on the expiration of 3 months after the said lodgement date, HLBV, CGLN(T) and CGLN(A) will be dissolved.

The liquidation of WTP is pending completion.

24. Changes in composition of the Group (Continued)

- c. On 10 November 2006, HFLG announced that its wholly-owned subsidiary, HFLG Assets Sdn Bhd (formerly known as HLC Management Co Sdn Bhd), had placed Natcap Portfolio Sdn Bhd under Member's Voluntary Winding-up pursuant to Section 254(1) of the Companies Act, 1965. The liquidation is pending completion.
- d. On 29 June 2007, HLG Capital Berhad announced that its wholly-owned subsidiaries, HLG Capital Advisory Sdn Bhd and HLGeBIZ Sdn Bhd, were placed under Member's Voluntary Winding Up pursuant to Section 254(1) of the Companies Act, 1965. The liquidation is pending completion.

25. Commitments and contingencies

- a. In the normal course of business, the banking subsidiaries 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 30/06/2007			As at 30/06/2006		
	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
The Banking Group						
Direct credit substitutes	168,884	168,884	168,884	190,074	190,074	190,074
Transaction-related contingent items	282,088	141,043	141,043	242,907	121,453	121,453
Short-term self liquidating trade-related contingencies	606,280	121,256	121,256	633,426	126,685	126,685
Other assets sold with recourse and commitment	45,452	45,452	45,452	31,987	31,987	31,987
Irrevocable commitments to extend credit:						
-maturity more than 1 year	4,336,920	2,168,460	2,168,460	4,257,875	2,128,938	2,128,938
-maturity less than 1 year	13,947,338	-	-	10,943,047	-	-
Foreign exchange related contracts	22,717,926	558,094	70,693	8,666,574	259,954	129,977
Interest rate related contracts	34,430,038	454,567	3,051	23,109,340	277,279	138,640
Equity related contracts	129,340	3,796	-	8,288	415	208
Miscellaneous	450	-	-	418	-	-
Total	76,664,716	3,661,552	2,718,839	48,083,936	3,136,785	2,867,962

- 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 2007.

26. 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.

28. Interest/Profit rate risk

	The Group						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	16,714,972	-	-	-	-	52,714	-	16,767,686	3.7
Deposits and placements with banks and other financial institution	-	6,598,000	2,648,855	2,000	-	41,904	-	9,290,759	3.6
Securities purchased under resale agreements	2,366,332	1,128,977	-	-	-	-	-	3,495,309	3.5
Securities held at fair value through profit or loss	-	-	-	-	-	-	3,525,932	3,525,932	4.0
Securities available-for-sale	128,205	332,155	518,579	2,871,595	984,123	588,906	-	5,423,563	4.2
Securities held-for-maturity	1,140,242	876,306	340,604	97,875	129,010	38,753	-	2,622,790	3.8
Loans, advances and financing									
- performing	23,192,470	381,157	1,783,323	3,746,829	2,891,647	(449,963)	-	31,545,463	6.6
- non performing	-	-	-	-	-	605,477	-	605,477	-
Trade receivables	-	-	-	-	-	407,396	-	407,396	-
Other receivables	-	-	-	-	-	1,048,415	-	1,048,415	-
Statutory deposits with									
Bank Negara Malaysia	-	-	-	-	-	1,206,939	-	1,206,939	-
Tax recoverable	-	-	-	-	-	14,648	-	14,648	-
Deferred tax assets	-	-	-	-	-	162,140	-	162,140	-
Property and equipment	-	-	-	-	-	481,345	-	481,345	-
Intangible assets	-	-	-	-	-	588,967	-	588,967	-
Total assets	43,542,221	9,316,595	5,291,361	6,718,299	4,004,780	4,787,641	3,525,932	77,186,829	
Liabilities									
Deposits from customers	29,736,173	8,153,411	13,031,987	518,465	-	4,655,930	-	56,095,966	3.0
Deposits and placements of banks and other financial institution	4,289,046	755,524	68,820	-	-	230	-	5,113,620	3.5
Obligation of securities sold under repurchase agreements	1,087,015	42,506	-	-	-	-	-	1,129,521	3.6
Bills and acceptance payable	57,423	45,905	6,727	117	-	456,079	-	566,251	3.6
Payables and other liabilities	-	-	-	-	-	2,713,181	-	2,713,181	-
Provision for claims	-	-	-	-	-	169,711	-	169,711	-
Provision for taxation	-	-	-	-	-	106,402	-	106,402	-
Bank loans	125,700	-	-	-	-	-	-	125,700	4.1
Subordinated Bonds	-	-	-	671,657	-	-	-	671,657	5.2
Syndicated loan facility	-	-	-	509,850	-	-	-	509,850	5.1
Long term borrowings	-	-	-	-	-	-	-	-	-
- Medium Term Notes	-	200,000	100,000	-	-	-	-	300,000	5.9
Insurance funds	-	-	-	-	-	4,043,762	-	4,043,762	-
Total liabilities	35,295,357	9,197,346	13,207,534	1,700,089	-	12,145,295	-	71,545,621	
Shareholder's equity	-	-	-	-	-	3,766,122	-	3,766,122	
Minority interest	-	-	-	-	-	1,875,086	-	1,875,086	
Total liabilities and shareholder's equity	35,295,357	9,197,346	13,207,534	1,700,089	-	17,786,503	-	77,186,829	
On-balance sheet interest sensitivity gap	8,246,864	119,249	(7,916,173)	5,018,210	4,004,780				
Off-balance sheet interest sensitivity gap	(70,000)	(2,379,668)	(4,820,000)	(5,901,100)	50,000				
Total interest sensitivity gap	8,176,864	(2,260,419)	(12,736,173)	(882,890)	4,054,780				

28. Interest/Profit rate risk (continued)

The Group 30/06/06									
	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	Effective interest rate %
Assets									
Cash and short-term funds	13,635,696	-	-	-	-	1,127,303	-	14,762,999	3.7
Deposits and placements with banks and other financial institution	-	1,041,259	443,732	123,535	-	-	-	1,608,526	3.9
Securities purchased under resale agreements	2,839,071	1,635,842	-	-	-	-	-	4,474,913	3.8
Securities held at fair value through profit or loss	-	-	-	-	-	-	3,907,027	3,907,027	3.8
Securities available-for-sale	63,298	351,235	693,840	4,816,947	1,236,385	598,696	-	7,760,401	4.3
Securities held-for-maturity	10,001	174,958	149,313	631,090	206,759	49,083	-	1,221,204	3.8
Loans, advances and financing									
- performing	15,968,924	1,200,943	1,035,402	4,260,683	5,735,219	(379,879)	-	27,821,292	6.5
- non performing	-	-	-	-	-	1,237,666	-	1,237,666	-
Trade receivables	-	-	-	-	-	183,130	-	183,130	-
Other receivables	-	-	-	-	-	614,347	-	614,347	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	881,524	-	881,524	-
Tax recoverable	-	-	-	-	-	14,442	-	14,442	-
Deferred tax assets	-	-	-	-	-	171,710	-	171,710	-
Property and equipment	-	-	-	-	-	460,359	-	460,359	-
Intangible assets	-	-	-	-	-	542,971	-	542,971	-
Total assets	32,516,990	4,404,237	2,322,287	9,832,255	7,178,363	5,501,352	3,907,027	65,662,511	
Liabilities									
Deposits from customers	20,735,106	7,579,329	11,191,947	636,102	-	4,055,933	-	44,198,417	2.8
Deposits and placements of banks and other financial institution	2,304,100	455,175	36,768	-	-	217	-	2,796,260	4.1
Obligation of securities sold under repurchase agreements	6,820,498	30,000	-	-	-	-	-	6,850,498	3.3
Bills and acceptance payable	13,045	13,775	7,785	45	-	511,559	-	546,209	3.8
Payables and other liabilities	-	-	-	-	-	1,347,670	-	1,347,670	-
Provision for claims	-	-	-	-	-	165,222	-	165,222	-
Provision for taxation	-	-	-	-	-	98,399	-	98,399	-
Bank loans	39,300	32,000	81,000	-	-	-	-	152,300	4.4
Subordinated Bonds	-	-	-	-	704,049	-	-	704,049	5.3
Long term borrowings									
- Commercial paper	-	-	98,145	-	-	-	-	98,145	4.0
- Medium Term Notes	-	-	-	200,000	-	-	-	200,000	7.0
Insurance funds	-	-	-	-	-	3,392,400	-	3,392,400	-
Total liabilities	29,912,049	8,110,279	11,415,645	836,147	704,049	9,571,400	-	60,549,569	
Shareholder's equity	-	-	-	-	-	3,390,637	-	3,390,637	
Minority interest	-	-	-	-	-	1,722,305	-	1,722,305	
Total liabilities and shareholder's equity	29,912,049	8,110,279	11,415,645	836,147	704,049	14,684,342	-	65,662,511	
On-balance sheet interest sensitivity gap	2,604,941	(3,706,042)	(9,093,358)	8,996,108	6,474,314				
Off-balance sheet interest sensitivity gap	(665,000)	(2,925,193)	(4,289,000)	(4,364,107)	(340,700)				
Total interest sensitivity gap	1,939,941	(6,631,235)	(13,382,358)	4,632,001	6,133,614				

28. Interest/Profit rate risk (continued)

The Company 30/06/07									
	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	Effective interest rate %
Assets									
Cash and short-term funds	-	-	-	-	-	16,476	-	16,476	-
Securities held at fair value through profit or loss	-	-	-	-	-	-	7	7	3.8
Other receivables	-	-	-	-	-	8,970	-	8,970	-
Investment in subsidiaries	-	-	-	-	-	2,048,349	-	2,048,349	-
Tax recoverable	-	-	-	-	-	13,823	-	13,823	-
Property and equipment	-	-	-	-	-	4,136	-	4,136	-
Intangible assets	-	-	-	-	-	20	-	20	-
Total assets	-	-	-	-	-	2,091,774	7	2,091,781	
Liabilities									
Payables and other liabilities	-	-	-	-	-	22,815	-	22,815	-
Bank loans	111,000	-	-	-	-	-	-	111,000	4.1
Long term borrowings									
- Medium Term Notes	-	200,000	100,000	-	-	-	-	300,000	5.9
Total liabilities	111,000	200,000	100,000	-	-	22,815	-	433,815	
Shareholder's equity	-	-	-	-	-	1,657,966	-	1,657,966	
Total liabilities and shareholder's equity	111,000	200,000	100,000	-	-	1,680,781	-	2,091,781	
On-balance sheet interest sensitivity gap	(111,000)	(200,000)	(100,000)	-	-	-	-	-	

The Company 30/06/06									
	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	Effective interest rate %
Assets									
Cash and short-term funds	46,000	-	-	-	-	975	-	46,975	3.4
Other receivables	-	-	-	-	-	7,731	-	7,731	-
Investment in subsidiaries	-	-	-	-	-	2,049,249	-	2,049,249	-
Tax recoverable	-	-	-	-	-	12,269	-	12,269	-
Property and equipment	-	-	-	-	-	1,636	-	1,636	-
Intangible assets	-	-	-	-	-	21	-	21	-
Total assets	46,000	-	-	-	-	2,071,881	-	2,117,881	
Liabilities									
Payables and other liabilities	-	-	-	-	-	20,800	-	20,800	-
Bank loans	39,300	-	81,000	-	-	-	-	120,300	4.4
Long term borrowings									
- Commercial paper	-	-	98,145	-	-	-	-	98,145	4.0
- Medium Term Notes	-	-	-	200,000	-	-	-	200,000	7.0
Total liabilities	39,300	-	179,145	200,000	-	20,800	-	439,245	
Shareholder's equity	-	-	-	-	-	1,678,636	-	1,678,636	
Total liabilities and shareholder's equity	39,300	-	179,145	200,000	-	1,699,436	-	2,117,881	
On-balance sheet interest sensitivity gap	6,700	-	(179,145)	(200,000)	-	-	-	-	

28. Operations of Islamic Banking

(a) Audited Balance Sheets as at 30 June 2007

	Group	
	As at 30/06/07 RM'000	As at 30/06/06 RM'000
ASSETS		
Cash and short-term funds	1,355,818	1,370,943
Deposits and placements with banks and other financial institutions	100,000	-
Securities held at fair value through profit or loss	318,848	129,027
Securities available-for-sale	136,210	178,524
Securities held-for-maturity	432,812	589,337
Financing, advances and other financing	3,672,900	3,944,758
Other receivables	19,875	36,525
Statutory deposits with Bank Negara Malaysia	170,314	163,424
Property, plant and equipment	1,630	2,060
Deferred tax assets	15,883	19,063
Total Assets	6,224,290	6,433,661
LIABILITIES AND SHAREHOLDERS' FUNDS		
Deposits from customers	5,250,725	5,701,544
Deposits and placements of banks and other financial institutions	75,000	135,000
Bills and acceptance payable	3,756	1,424
Payables and other liabilities	292,119	52,037
Provision for taxation	2,555	2,373
Total Liabilities	5,624,155	5,892,378
Islamic banking capital fund	500,000	500,000
Reserves	100,135	41,283
Islamic Banking Funds	600,135	541,283
Total Liabilities and Islamic Banking Funds	6,224,290	6,433,661
Commitments and Contingencies	398,025	427,370

(b) Audited Income Statements for the 4rd Quarter and Cumulative Twelve Months Ended 30 June 2007

	Current quarter ended		Twelve months ended	
	30/06/07 RM '000	30/06/06 RM '000	30/06/07 RM '000	30/06/06 RM '000
Group				
Income derived from investment of deposits' funds and others	69,680	76,808	295,106	293,568
Income derived from investment of shareholders' funds	10,211	6,277	33,251	27,339
Allowance for losses on financing	(2,573)	(7,638)	(5,196)	(23,007)
Profit equalisation reserve	4,885	4,560	(126)	10,035
Total distributable income	82,203	80,007	323,035	307,935
Income attributable to deposits	(44,105)	(45,521)	(184,403)	(164,231)
Total net income	38,098	34,486	138,632	143,704
Other operating expenses	(13,763)	(18,861)	(57,327)	(81,270)
Profit before taxation and zakat	24,335	15,625	81,305	62,434
Zakat	(5)	(9)	(35)	(49)
Taxation	(9,077)	(6,210)	(24,459)	(19,301)
Profit after taxation and zakat	15,253	9,406	56,811	43,084
Profit attributable to shareholders	15,253	9,406	56,811	43,084
Earnings per share - basic (sen)	3.05	2.58	11.36	11.83
Earnings per share - fully diluted (sen)	3.05	2.58	11.36	11.83

(c) Financing, advances and other financing

(i) By type

	Group	
	As at 30/06/07 RM'000	As at 30/06/06 RM'000
Cash line	7,457	10,196
Term financing		
- House financing	1,659,400	1,045,491
- Hire purchase receivable	2,708,237	3,343,399
- Lease receivable	25,976	15,098
- Other term financing	510,740	548,171
Claims on customers under acceptance credits	148,583	103,291
Staff financing	86	123
Revolving credit	696	2,900
Others	1,176	1,096
	<u>5,062,351</u>	<u>5,069,765</u>
Less: Unearned income	<u>(1,303,602)</u>	<u>(1,037,941)</u>
	3,758,749	4,031,824
Less: Allowance for bad and doubtful financing		
- General	(55,932)	(60,158)
- Specific	(29,917)	(26,908)
Total net financing, advances and other financing	<u><u>3,672,900</u></u>	<u><u>3,944,758</u></u>

(ii) By contract

	Group	
	As at 30/06/07 RM'000	As at 30/06/06 RM'000
Bai' Bithaman Ajil (deferred payment sale)	1,020,885	979,754
Ijarah (lease)	24,086	13,794
Ijarah Muntahia Bittamlik/AITAB (lease ended with ownership)	2,407,069	2,934,985
Murabahah (cost-plus)	306,709	103,291
	<u><u>3,758,749</u></u>	<u><u>4,031,824</u></u>

Non-performing financing

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

	Group	
	As at 30/06/07	As at 30/06/06
	RM'000	RM'000
At beginning	75,637	70,437
Non-performing during the year	252,574	240,128
Reclassified as performing	(211,495)	(195,844)
Amount written back in respect of recoveries	(46,766)	(32,270)
Amount written off	(8,880)	(6,814)
Closing balance	<u>61,070</u>	<u>75,637</u>
Net non-performing financing, advances and other financing	<u>31,153</u>	<u>48,729</u>
Ratio of net non-performing financing, advances and other financing to total net financing, advances and other financing	<u>0.8%</u>	<u>1.2%</u>

(d) Movements in allowance for bad and doubtful financing

	Group	
	As at 30/06/07	As at 30/06/06
	RM'000	RM'000
General allowance		
At beginning	60,158	55,009
Net allowance made/(written back) during the year	(4,226)	5,149
Closing balance	<u>55,932</u>	<u>60,158</u>
As % of gross financing, advances and other financing less specific allowance	<u>1.5%</u>	<u>1.5%</u>
Specific allowance		
At beginning	26,908	13,063
Allowance made during the year	21,795	26,771
Amount written back in respect of recoveries	(9,848)	(6,111)
Amount written off	(8,938)	(6,815)
Closing balance	<u>29,917</u>	<u>26,908</u>

(e) Deposits from customer

By type of deposit

	Group	
	As at 30/06/07 RM'000	As at 30/06/06 RM'000
Non-Mudharabah		
Demand deposits	299,018	127,218
Savings deposits	522,418	433,735
Negotiable instruments of deposit	198,077	1,739,230
	<u>1,019,513</u>	<u>2,300,183</u>
Mudharabah		
Demand deposits	-	-
Saving deposits	423,792	292,243
General investment deposits	2,002,058	2,094,070
Specific investment deposits	1,805,362	1,013,613
Others	-	1,435
	<u>4,231,212</u>	<u>3,401,361</u>
	<u>5,250,725</u>	<u>5,701,544</u>

29. Change in Accounting Policies

During the year ended 30 June 2007, the Group have adopted the new and revised FRSs issued by MASB that are applicable with effect from 1 July 2006 which resulted in changes in accounting policies as follows:

(i) FRS 2 : Share-based Payment

FRS 2 requires an entity to recognise share-based payments in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. With the adoption of FRS 2, the compensation expense relating to share options is recognised in the income statements over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by the vesting date. The change in accounting policy is applied retrospectively only for those shares options granted after 31 December 2004 and have not vested as of 1 January 2006 as provided in the transitional provision of FRS 2.

During the financial year ended 30 June 2007, the Company granted 12,500,000 conditional incentive share options to eligible executives of the Company pursuant to the ESOS of HLFG subject to the achievement of certain performance criteria over an option performance period. The resulting expense of RM1,152,000 has been debited to the income statement.

In connection with the ESOS, a trust has been set up and is administered by an appointed trustee. The trustee will be entitled from time to time to accept advances from the Group to purchase the Company's ordinary shares from the open market for the purposes of the ESOS.

In accordance with IC Interpretation 112 Consolidation - Special Purpose Entities, the advances given to the trustee is consolidated and classified as Treasury Shares held for ESOS.

29. Change in Accounting Policies and Prior Year Adjustments (Continued)

(a) Change in Accounting Policies (Continued)

(ii) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets

The adoption of FRS 3, FRS 136 and FRS 138 has resulted in the Group ceasing amortisation of goodwill. Goodwill carried at cost less accumulated impairment losses, is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired. Impairment losses are recognised in the income statement when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds the recoverable amount.

In prior years, goodwill arising on consolidation was carried forward at cost less the previous amount written off. Goodwill would be written down at such time when the Directors considered that there was a permanent diminution in the value of the investments. The exception was in respect of an immaterial sum of goodwill arising on consolidation of a subsidiary group which was amortised over a period of 20 years.

(iii) FRS 101: Presentation of Financial Statements

The adoption of revised FRS 101 requires new presentation of the financial statements.

In the consolidated income statement, minority interests are presented as an allocation of the total profit for the financial period between the equity holders of the parent and minority interests. In the consolidated balance sheet and consolidated statement of changes in equity, minority interests are presented within total equity. FRS 101 also requires disclosure on the face of the consolidated statement of changes in equity, a total for recognised income and expenses for the financial period, showing separately the amount attributable to the equity holders of the parent and the minority interests.

The presentation of this interim financial report is based on the revised requirements of FRS 101 in which certain comparative figures have been restated to conform with the current period's presentation.

**HONG LEONG FINANCIAL GROUP BERHAD (“HLFG”)
ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES
BERHAD LISTING REQUIREMENTS**

1. Review of performance

Current quarter against preceding year's corresponding quarter

The Group recorded a profit before tax of RM323.0 million for the quarter ended 30 June 2007 as compared to RM273.1 million in the preceding year's corresponding quarter, a increase of RM49.9 million or 18.3%. This was mainly due to higher contributions from the Banking and Insurance divisions.

The Banking division recorded a profit before tax of RM241.7 million for the quarter ended 30 June 2007 as compared to RM201.3 million in the preceding year's corresponding quarter, an increase of RM40.4 million or 20.1%. This was mainly due to lower allowance for losses on loans, advances and financing in the current quarter ended 30 June 2007.

The Insurance division recorded a profit before tax of RM78.8 million for the quarter ended 30 June 2007 as compared to RM63.4 million in the preceding year's corresponding quarter, an increase of RM15.4 million or 24.3%. The increase was mainly due to higher premium income.

The Stockbroking and Asset Management division recorded a profit before tax of RM12.1 million for the quarter ended 30 June 2007 as compared to RM 13.2 million in the preceding year's corresponding quarter, a decrease of RM1.1 million or 8.0%. The decrease was mainly due to a one-off realised gain of RM7.9 million arising from the disposal of Bursa Shares in the preceding year's corresponding period.

Financial year against preceding financial year

The Group recorded a profit before tax of RM985.7 million for the financial year ended 30 June 2007 as compared to RM859.3 million in the previous corresponding period, an increase of RM126.4 million or 14.7%. This was mainly due to higher contributions from the Group's three main operating businesses.

The Banking division recorded a profit before tax of RM856.6 million for the financial year ended 30 June 2007 as compared to RM764.2 million in the previous corresponding period, an increase of RM92.4 million or 12.1%. This was mainly due to higher net income which was spurred by strong growth in business volumes.

The Insurance division recorded a profit before tax of RM120.1 million for the financial year ended 30 June 2007 as compared to RM91.9 million in the previous corresponding period, an increase of RM28.2 million or 30.7%. The increase was mainly due to higher premium income and gains on investments.

The Stockbroking and Asset Management division recorded a profit before tax of RM37.9 million for the financial year ended 30 June 2007 as compared to RM27.8 million in the previous corresponding period, an increase of RM10.1 million or 36.1%. The increase was mainly due to higher brokerage income arising from higher Bursa volumes experienced during the year.

2. Review of performance of current quarter against preceding quarter

The Group recorded a profit before tax of RM323.0 million for the quarter ended 30 June 2007 as compared to RM218.8 million in the preceding quarter, an increase of RM104.2 million or 47.6%. The increase was mainly contributed by higher profits from the Banking and Insurance divisions.

The Banking division recorded a profit before tax of RM241.7 million for the quarter ended 30 June 2007 as compared to RM204.1 million in the preceding quarter, an increase of RM37.6 million or 18.4%. The increase was mainly due to lower allowance for losses on loans, advances and financing in the current quarter ended 30 June 2007.

The Insurance division recorded a profit before tax of RM78.8 million for the quarter ended 30 June 2007 as compared to RM7.1 million in the preceding quarter, an increase of RM71.7 million or 1,003.6%. The increase was mainly due to actuarial surplus transferred from the Life fund.

The Stockbroking and Asset Management divisions recorded a profit before tax of RM12.1 million as compared to RM13.7 million in the preceding quarter, a decrease of RM1.6 million or 11.6%. The decrease was mainly due to lower brokerage income as compared to preceding quarter.

3. Prospects for next financial year

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

4. Variance of actual profit from forecasted profit

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

5. Taxation and zakat

Provision based on profits for the financial year ended 30 June 2007:

	Group		Group	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Tax and zakat expenses				
Malaysian – current	(92,888)	(84,196)	(288,255)	(255,301)
Overseas – current	905	(10)	(899)	(731)
Transfer (from) / to deferred tax	5,796	25,350	20,833	24,494
	(86,187)	(58,856)	(268,321)	(231,538)
Prior year over/(under) provision				
- Malaysian	4,224	(11,669)	4,224	(11,709)
	(81,963)	(70,525)	(264,097)	(243,247)

The effective tax rate for the Group for the current quarter and the financial year is lower than the statutory rate of taxation due to lower statutory tax rate of certain subsidiaries.

	Company		Company	
	Current quarter ended		Twelve months ended	
	30/06/07	30/06/06	30/06/07	30/06/06
	RM '000	RM '000	RM '000	RM '000
Tax expenses				
Malaysian – current	7,655	(14,721)	(55,007)	(81,644)
Overseas – current	-	-	-	-
Transfer (from) / to deferred tax	-	-	-	-
	7,655	(14,721)	(55,007)	(81,644)
Prior year over/(under) provision				
- Malaysian	-	-	-	-
	7,655	(14,721)	(55,007)	(81,644)

The effective tax rate for the Company for the current quarter and the financial year is lower than the statutory rate of taxation due to higher deductible expenses.

6. Sale of properties/unquoted investments

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

7. Purchase / sale of quoted securities of the Group

There was no other purchase or disposal of quoted securities for the financial year 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.

9. Group borrowings

The Group borrowings include:

	As at 30/06/07 RM '000	As at 30/06/06 RM '000
Short Term – unsecured	125,700	152,300
Long Term – unsecured	300,000	298,145
Total Borrowings	<u>425,700</u>	<u>450,445</u>
Syndicated facility - USD150 million	509,850	-
Subordinated Bonds - USD200 million	671,657	704,049

Subordinated bonds

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.

Syndicated facility

During the financial year, the Banking subsidiary company entered into a Syndicated Transferable Short Term Loan Facility (“the Facility”) of USD150 million repayable in bullet repayment on the date falling 364 days from the drawdown date. Proceeds from the Facility would be used for general funding purposes.

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	3,166,705	1,790,877	915,444	360,671	99,713	-	-
- swaps	17,319,390	5,437,683	3,144,426	5,685,892	1,392,911	1,300,960	357,518
- options	2,231,831	1,095,089	455,496	604,642	76,604	-	-
Interest rate related contracts							
- forwards	-	-	-	-	-	-	-
- futures	16,850,333	-	3,158,333	2,627,000	3,173,000	7,892,000	-
- swaps	17,579,706	250,000	919,980	180,000	2,035,900	13,206,233	987,593
Total	57,147,965	8,573,649	8,593,678	9,458,205	6,778,129	22,399,193	1,345,111

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 year, the amount of contracts which were not hedged and hence, exposed to foreign exchange and interest rate market risk were RM492,598,221 (FYE June 2006: RM340,585,000) and RM20,343,653,750 (FYE June 2006: RM14,197,940,190) 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 year, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM133,572,118 (FYE June 2006: RM115,302,951). 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.

12. HLFG Dividends

- (i) A first interim dividend of 9 sen per share less income tax of 27% was declared (2005/2006 : 8 sen per share less income tax of 28%) and paid on 18 December 2006.
- (ii) A second interim dividend of 14 sen per share less income tax of 27% was declared (2005/2006 : 10 sen per share tax exempt) and paid on 28 June 2007.
- (iii) Total dividend for the financial period : 23.0 sen per share less income tax at 27% (2005/2006 : 8 sen per share less income tax at 28% and 10 sen per share tax-exempt)

The Board does not recommend any final dividends to be paid for the financial year ended 30 June 2007 (2005/2006 : 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.

Weighted Average Number Of Ordinary Shares	Group Current quarter ended		Group Twelve months ended	
	30/06/07 RM '000	30/06/06 RM '000	30/06/07 RM '000	30/06/06 RM '000
Weighted average number of ordinary shares	1,037,451	1,037,101	1,037,451	1,037,101
Net profit attributable to shareholders of the company	176,504	145,757	487,969	405,430
Basic earnings per share (Sen)	17.0	14.0	47.0	39.1

Weighted Average Number Of Ordinary Shares	Company Current quarter ended		Company Twelve months ended	
	30/06/07 RM '000	30/06/06 RM '000	30/06/07 RM '000	30/06/06 RM '000
Weighted average number of ordinary shares	1,037,990	1,037,640	1,037,990	1,037,640
Net profit attributable to shareholders of the company	(1,263)	54,350	146,867	205,774
Basic earnings per share (Sen)	(0.1)	5.3	14.1	19.8

13. Earnings per share (Continued)

(b) Fully diluted 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 (diluted) during the financial period.

Fully Diluted Weighted Average Number Of Ordinary Shares	Group Current quarter ended		Group Twelve months ended	
	30/06/07 RM '000	30/06/06 RM '000	30/06/07 RM '000	30/06/06 RM '000
Weighted average no. of shares as at end of financial period	1,037,451	1,037,101	1,037,451	1,037,101
Effect of Warrant 1997/2007	317	-	317	-
Weighted average number of ordinary shares (Diluted)	1,037,768	1,037,101	1,037,768	1,037,101
Net profit attributable to shareholders of the company	176,504	145,757	487,969	405,430
Fully diluted earnings per share (Sen)	17.0	14.0	47.0	39.1

Fully Diluted Weighted Average Number Of Ordinary Shares	Company Current quarter ended		Company Twelve months ended	
	30/06/07 RM '000	30/06/06 RM '000	30/06/07 RM '000	30/06/06 RM '000
Weighted average no. of shares as at end of financial period	1,037,990	1,037,640	1,037,990	1,037,640
Effect of Warrant 1997/2007	317	-	317	-
Weighted average number of ordinary shares (Diluted)	1,038,307	1,037,640	1,038,307	1,037,640
Net profit attributable to shareholders of the company	(1,263)	54,350	146,867	205,774
Fully diluted earnings per share (Sen)	(0.1)	5.3	14.1	19.8