

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 JUNE 2000

	Note	2000 RM'000	1999 RM'000
<b>ASSETS</b>			
Cash and short-term funds	3	2,628,428	1,825,680
Deposits and placements with financial institutions	4	1,610,300	1,151,295
Dealing securities	5	259,161	57,448
Investment securities	6	614,945	869,109
Loans, advances and financing	7	5,676,372	5,577,640
Other assets	8	48,763	79,868
Statutory deposit with Bank Negara Malaysia	10	233,970	231,761
Investment in subsidiary companies	11	1,248	1,248
Property, plant and equipment	12	59,364	62,362
		-----	-----
<b>TOTAL ASSETS</b>		<b>11,132,551</b>	<b>9,856,411</b>
		=====	=====
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
Deposits from customers	13	9,520,745	8,791,146
Deposits and placements of banks and other financial institutions	14	661,000	185,000
Other liabilities	15	311,240	354,315
		-----	-----
<b>TOTAL LIABILITIES</b>		<b>10,492,985</b>	<b>9,330,461</b>
		-----	-----
Share capital	16	263,000	263,000
Reserves	17	376,566	262,950
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<b>SHAREHOLDERS' FUNDS</b>		<b>639,566</b>	<b>525,950</b>
		-----	-----
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>11,132,551</b>	<b>9,856,411</b>
		=====	=====
<b>COMMITMENTS AND CONTINGENCIES</b>	27	<b>1,869,320</b>	<b>1,644,333</b>
		=====	=====

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

INCOME STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2000

	Note	2000 RM'000	1999 RM'000
Interest income	18	693,191	821,714
Interest expense	19	(362,794)	(623,014)
		-----	-----
Net interest income		330,397	198,700
SPI income	34(10)	19,997	7,826
		-----	-----
		350,394	206,526
Loan and financing loss and provision	20	(103,461)	(134,896)
		-----	-----
		246,933	71,630
Non-interest income	21	62,774	41,535
		-----	-----
Net income		309,707	113,165
Overhead expenses	22	(107,238)	(91,332)
Provision for damages	15(i)	(1,200)	(1,200)
		-----	-----
Profit before taxation and zakat		201,269	20,633
Taxation	25	(49,734)	-
Zakat		(47)	(28)
		-----	-----
Profit after taxation and zakat		151,488	20,605
		=====	=====
Earnings per share (sen)	26	58	8
		=====	=====

HONG LEONG FINANCE BERHAD  
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STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2000

	Share Capital RM'000	Statutory Reserves RM'000	Retained Profits RM'000	Total RM'000
At 1 July 1998	263,000	145,643	101,436	510,079
Net profit for the year	-	-	20,605	20,605
Transfer to statutory reserves	-	5,151	(5,151)	-
Proposed dividend 2.5% less tax	-	-	(4,734)	(4,734)
	-----	-----	-----	-----
At 30 June 1999	263,000	150,794	112,156	525,950
Net profit for the year	-	-	151,488	151,488
Transfer to statutory reserves	-	37,872	(37,872)	-
Proposed dividend 20% less tax	-	-	(37,872)	(37,872)
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At 30 June 2000	<u>263,000</u>	<u>188,666</u>	<u>187,900</u>	<u>639,566</u>

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

CASH FLOW STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2000

	2000 RM'000	1999 RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit before taxation and zakat	201,269	20,633
Adjustments for:-		
Depreciation of property, plant and equipment	8,502	8,814
Gain on disposal of property, plant and equipment	(189)	(30)
Property, plant and equipment written off	276	15
Provision for bad and doubtful debts	103,461	134,896
Provision for interest-in-suspense	65,858	97,622
Provision for staff retirement benefits	728	751
Provision for damages	1,200	1,200
Investment income		
- interest income from dealing securities	(6,960)	(9,827)
- interest income from investment securities	(15,138)	(56,864)
- dividend income	(333)	(337)
- gain on sale of investment securities	(17,015)	(27,297)
Provision for diminution in value of investment securities	(173)	(622)
	-----	-----
Operating profit before working capital changes	341,486	168,954
Decrease in deposits and placements with financial institutions	(459,003)	(1,076,295)
Increase in loans, advances and financing	(268,052)	(134,586)
Decrease in other assets	31,103	8,590
(Increase)/Decrease in statutory deposits with Bank Negara Malaysia	(2,209)	427,754
Increase in deposits from customers	729,599	729,614
Increase/(Decrease) in deposits and placement of banks and other financial institutions	476,000	(40,115)
(Decrease)/Increase in other liabilities	(107,323)	127,922
	-----	-----
Cash generated from operations	741,601	211,838
Payment of staff retirement benefits	(940)	(604)
Income taxes paid	(19,658)	(54,359)
	-----	-----
Net cash generated from operating activities	721,003	156,875
	-----	-----

	2000 RM'000	1999 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal/(Purchase) of investment securities (net)	69,638	168,162
Purchase of property, plant and equipment	(5,809)	(5,118)
Proceeds from sale of property, plant and equipment	219	46
Dividend received	333	337
Interest received from dealing securities	6,960	9,827
Interest received from investment securities	15,138	56,864
	-----	-----
Net cash generated from investing activities	86,479	230,118
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(4,734)	-
	-----	-----
Net cash used in financing activities	(4,734)	-
	-----	-----
Net increase in cash and cash equivalents	802,748	386,993
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	1,825,680	1,438,687
	-----	-----
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	2,628,428	1,825,680
	=====	=====
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:-</b>		
Cash and short-term funds	2,628,428	1,825,680
	=====	=====

HONG LEONG FINANCE BERHAD  
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NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company has been prepared in accordance with the provisions of the Companies Act 1965, Bank Negara Malaysia Guidelines and applicable approved accounting standards in Malaysia. The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements of the Company has been prepared under the historical cost convention.

(b) Recognition of Interest Income

Interest income is recognised on an accrual basis. Interest income on hire purchase, block discounting and leasing transactions is recognised on the sum-of-digits method. Interest income on other loans is recognised by reference to rest periods which are either daily or monthly.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months for loans, hire purchase accounts, block discounting, leasing and advances. The policy on suspension of interest is in conformity with Bank Negara Malaysia's "Guidelines on Interest Suspension, BNM/GP3"(revised).

Interest income on balances and deposits with financial institutions, short term investments and Malaysian Government securities is recognised on an accrual basis.

(c) Recognition of Fees and Other Income

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

Commitment fees are recognised as income based on time apportionment.

Dividends from dealing and investment securities are recognised when received.

Dividend income from Malaysian Government investment certificates invested for the purpose of Islamic banking is recognised on a basis consistent with the principles of Syariah.

(d) Dealers' Commission

Dealers' commission are amortised over the period of the hire purchase loans using the sum-of-digits method.

(e) Provision for Bad and Doubtful Debts and Financing

Specific provisions are made for doubtful debts and financing which have been individually reviewed and specifically identified as bad or doubtful.

A general provision based on a percentage of the loan and financing portfolio is also made to cover possible losses which are not specifically identified.

An uncollectable loan and financing or portion of a loan and financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

(f) Repurchase Agreements

Securities purchased under resale agreements are securities which the Company had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Company has sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities are reflected as a liability on the balance sheet.

(g) Dealing Securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term, and are stated at the lower of cost and market value.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

(h) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institutions Act 1989, and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment issues, Cagamas bonds, other Government securities and Private Debt Securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount, where applicable, to maturity date. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

(i) Investment in Subsidiary Companies

A subsidiary company is a company in which the Company controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investments in subsidiary companies are stated at cost, and written down when the directors consider that there is a permanent diminution in the value of such investments.

(j) Depreciation of Property, Plant and Equipment

Freehold land is not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:-

Buildings on freehold land	2%
Long term leasehold land	
- more than 50 years	Over the lease period
Short term leasehold land	
- less than 50 years	Over the lease period
Leasehold buildings	Over the remaining period of the lease or 2% whichever is shorter
Office equipment and furniture	10%
Computer equipment and software	20%
Office renovation	10%
Motor vehicles	20%

(k) Deferred Taxation

Provision is made by using the "liability" method for deferred taxation in respect of all material timing differences between accounting income and taxable income except where it is reasonably expected that the tax effects of such deferrals will continue in the foreseeable future. Timing differences that give rise to deferred tax benefits are not taken into account.

(l) Staff Retirement Gratuities

The Company operates a defined contribution scheme for eligible executives which is administered by the Hong Leong Group Executive Retirement Benefit Fund. The benefits payable on retirement are based on a fixed percentage contribution of the salary of the executive as accrued monthly in the executive's nominal account.

The cost and liability in respect of the defined contribution scheme will be determined by an actuarial valuation to be conducted once in every three years by a qualified actuary. The last valuation was carried out in June 1998.

(m) Foreclosed Properties

Foreclosed properties are stated at lower of cost and net realisable value.

(n) Interest Rate Swaps and Futures

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rate futures that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps and futures that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in net result from dealing securities.

(o) Amounts Recoverable from Danaharta

This relates to the loans sold to Danaharta where the total consideration is received in two portions; upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Company's predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and the initial consideration is recognised as "Amounts recoverable from Danaharta" within the "Other Assets" component of the balance sheet. Provisions against these amounts are made to reflect the Directors' assessment of the realisable value of the final consideration as at the balance sheet date.

3. CASH AND SHORT-TERM FUNDS

	2000 RM'000	1999 RM'000
Cash and balances with banks and other financial institutions	79,778	67,159
Money at call and deposit placements maturing within one month	2,548,650	1,758,521
	-----	-----
	2,628,428	1,825,680
	=====	=====

#### 4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2000 RM'000	1999 RM'000
Licensed banks	230,000	193,000
Licensed finance companies	24,600	419,695
Other financial institutions	1,355,700	538,600
	-----	-----
	1,610,300	1,151,295
	=====	=====

#### 5. DEALING SECURITIES

	2000 RM'000	1999 RM'000
Money market instruments:-		
Malaysian Government securities	80,743	57,448
Bankers' acceptances	68,957	-
Danamodal bonds	109,461	-
	-----	-----
	259,161	57,448
	=====	=====
Market value of money market instruments:-		
Malaysian Government securities	81,130	60,890
Danamodal bonds	111,371	-
	-----	-----
	192,501	60,890
	=====	=====

#### 6. INVESTMENT SECURITIES

	2000 RM'000	1999 RM'000
Money market instruments:-		
Malaysian Government securities	1,546	56,318
Malaysian Government investment certificates	13,198	13,204
Cagamas bonds	5,013	10,020
Negotiable instruments of deposit	-	60,000
Bankers' acceptances and Islamic accepted bills	293,551	292,502
Danamodal bonds	70,420	146,105
Danaharta bonds	46,452	80,572
Private debt securities	161,673	172,686
Private debt securities (quoted)	4,761	3,474
Commercial papers	-	19,000
	-----	-----
	596,614	853,881
Shares quoted in Malaysia	5,997	329
Unquoted securities:-		
Shares	10,772	8,939
Debentures	162	162
	-----	-----
	613,545	863,311

Amortisation of premium less accretion of discounts	3,724	8,294
Provision for diminution in value of		
- Quoted shares	(2)	(174)
- Unquoted shares	(2,322)	(2,322)
	<u>614,945</u>	<u>869,109</u>

(a) Market value of money market instruments and quoted securities:-

	2000 RM'000	1999 RM'000
Malaysian Government securities	1,689	58,516
Cagamas bonds	5,026	10,202
Danamodal bonds	75,903	157,702
Danaharta bonds	48,611	79,325
Private debt securities	166,558	171,402
Private debt securities (quoted)	4,743	4,375
Shares quoted in Malaysia	6,009	155
	<u>308,539</u>	<u>481,677</u>

(b) The maturity structure of money market instruments held for investment are as follows:-

	2000 RM'000	1999 RM'000
Maturing within one year	316,524	391,950
One year to three years	49,288	82,538
Three years to five years	125,914	280,994
Over five years	104,888	98,399
	<u>596,614</u>	<u>853,881</u>

7. LOANS, ADVANCES AND FINANCING

	2000 RM'000	1999 RM'000
Revolving credit facilities	539,197	592,823
Housing loans	919,798	721,322
Hire purchase	4,390,202	3,997,581
Lease receivables	92,710	184,432
Factoring	28,575	37,505
Block discounting	28,019	44,890
Staff loans	38,325	38,253
Other loans	1,013,794	1,025,105
	<u>7,050,620</u>	<u>6,641,911</u>
Unearned interest and income	(821,313)	(664,970)
	<u>6,229,307</u>	<u>5,976,941</u>

Provision for bad and doubtful debts and financing		
- specific	(237,876)	(154,951)
- general	(124,432)	(103,932)
Interest-in-suspense/Income-in-suspense	(190,627)	(140,418)
	-----	-----
Net loans, advances and financing	<u>5,676,372</u>	<u>5,577,640</u>

The maturity structure of loans, advances and financing are as follows:-

	2000 RM'000	1999 RM'000
Maturity within one year	1,465,193	1,154,938
One year to three years	1,834,748	1,977,953
Three years to five years	1,632,146	1,674,345
Over five years	1,297,220	1,169,705
	-----	-----
	<u>6,229,307</u>	<u>5,976,941</u>

Loans, advances and financing according to economic sector are as follows:-

	2000 RM'000	1999 RM'000
Agriculture	35,976	24,684
Mining and quarrying	28,556	37,947
Manufacturing	212,295	255,706
Electricity, gas and water	23,306	19,652
Construction	570,912	685,519
Real estate	88,576	51,213
Purchase of landed property (of which		
(i) Residential	973,003	777,475
(ii) Non-residential)	201,180	192,123
General commerce	214,401	192,994
Transport, storage and communication	98,091	112,431
Finance, insurance and business services	66,016	92,882
Purchase of securities	303,748	115,238
Purchase of transport vehicles	2,789,714	2,420,409
Consumption credit	164,347	184,971
Others	459,186	813,697
	-----	-----
	<u>6,229,307</u>	<u>5,976,941</u>

Movements in the non-performing loans and financing (including interest and income receivable) are as follows:-

	2000 RM'000	1999 RM'000
Balance as at 1 July	1,029,090	850,183
Transfer from Hong Leong Leasing Sdn Bhd	-	52,402
Transfer from HL Leasing Sdn Bhd	-	35,979
Non-performing during the year (gross)	227,038	493,110
Amount sold to Danaharta	(75,743)	(194,967)
Recoveries	(92,470)	(54,009)
Reclassified as performing	(220,425)	(129,608)
Amount written off	-	(24,000)
	-----	-----
Balance as at 30 June	867,490	1,029,090
	=====	=====

As % gross loans, advances and financing less specific provision and interest-in-suspense/income-in-suspense	7.1%	12.1%
	=====	=====

Movements in the provision for bad and doubtful debts and financing and interest-in-suspense/income-in-suspense accounts are as follows:-

	2000 RM'000	1999 RM'000
<u>General Provision</u>		
Balance as at 1 July	103,932	92,998
Provision made during the year	20,500	9,100
Transfer from HL Leasing Sdn Bhd	-	1,834
	-----	-----
Balance as at 30 June	124,432	103,932
	=====	=====

As % of gross loans, advances and financing less specific provision and interest-in-suspense/income-in-suspense	2.0%	1.7%
	=====	=====

	2000 RM'000	1999 RM'000
<u>Specific Provision</u>		
Balance as at 1 July	154,951	110,106
Transfer from Hong Leong Leasing Sdn Bhd	-	9,688
Transfer from HL Leasing Sdn Bhd	41	9,174
Provision made during the year	97,024	139,612
Amount sold to Danaharta	-	(84,223)
Amount written back in respect of recoveries	(14,140)	(13,863)
Amount written off	-	(15,543)
	-----	-----
Balance as at 30 June	237,876	154,951
	=====	=====

<u>Interest-in-suspense/Income-in-suspense</u>		
Balance as at 1 July	140,418	70,802
Transfer from Hong Leong Leasing Sdn Bhd	-	10,065
Transfer from HL Leasing Sdn Bhd	-	3,359
Provision made during the year	79,675	113,731
Amount sold to Danaharta	(15,649)	(32,584)
Amount written back in respect of recoveries	(13,817)	(16,109)
Amount written off	-	(8,456)
Amount transferred to deferred assets	-	(390)
	-----	-----
Balance as at 30 June	190,627	140,418
	=====	=====

#### 8. OTHER ASSETS

	2000	1999
	RM'000	RM'000
Other debtors, deposits and prepayments	32,367	52,186
Deferred asset - Ex-Visia (Note 9)	15,586	26,668
Amount recoverable from Danaharta	810	1,014
	-----	-----
	48,763	79,868
	=====	=====

Amount recoverable from Danaharta		
Balance as at 1 July	1,014	-
Amount arising during the year	62	85,491
Provision made during the year	(266)	(84,477)
	-----	-----
Balance as at 30 June	810	1,014
	=====	=====

#### 9. DEFERRED ASSET

The Company participated in a scheme approved by the Minister of Finance and sanctioned by the High Court of Malaya whereby the assets and liabilities of Visia Finance Berhad ("Visia"), a licensed finance company incorporated in Malaysia, were taken over by the Company with effect from 1 January 1994. The takeover of the assets and liabilities of Visia is not expected to have any adverse effect on the results and financial position of the Company as it is financed by a soft loan from Bank Negara Malaysia ("BNM").

The deficiency representing the excess of liabilities over the assets taken over from Visia pursuant to the abovementioned scheme, is shown as a deferred asset and, is to be reduced progressively by the net income derived from the utilisation of the soft loan placed by BNM and the net recoveries of non-performing loans of Visia.



<b>Accumulated Depreciation</b>						
At 1-7-1999	3,295	9,011	23,804	10,496	1,008	47,614
Charge for the year	476	1,226	4,449	2,130	221	8,502
Disposals	-	(59)	(24)	-	(177)	(260)
Written off	(30)	(829)	(1,217)	(1,277)	-	(3,353)
Reclassification	-	(766)	(156)	922	-	-
At 30-6-2000	<u>3,741</u>	<u>8,583</u>	<u>26,856</u>	<u>12,271</u>	<u>1,052</u>	<u>52,503</u>
<b>Net Book Value</b>						
At 30-6-2000	<u>33,222</u>	<u>6,207</u>	<u>7,391</u>	<u>11,667</u>	<u>877</u>	<u>59,364</u>
<b>Net Book Value</b>						
At 30-6-1999	<u>32,036</u>	<u>6,896</u>	<u>9,968</u>	<u>12,893</u>	<u>569</u>	<u>62,362</u>
<b>Depreciation charge for the year ended 30-6-1999</b>						
	<u>435</u>	<u>1,177</u>	<u>4,903</u>	<u>2,093</u>	<u>206</u>	<u>8,814</u>

\* Land and Buildings comprise of the following:-

	Freehold Land RM'000	Buildings on Freehold Land RM'000	Short Leasehold Land RM'000	Long Leasehold Land RM'000	Buildings on Short Leasehold Land RM'000	Buildings on Long Leasehold Land RM'000	Total RM'000
<b>Cost</b>							
At 1-7-1999	10,790	16,927	201	2,648	402	4,363	35,331
Additions	-	20	-	-	-	1,642	1,662
Written Off	-	-	(10)	-	(20)	-	(30)
Reclassification	(520)	(1,056)	520	-	1,047	9	-
At 30-6-2000	<u>10,270</u>	<u>15,891</u>	<u>711</u>	<u>2,648</u>	<u>1,429</u>	<u>6,014</u>	<u>36,963</u>
<b>Accumulated Depreciation</b>							
At 1-7-1999	-	2,291	74	238	147	545	3,295
Charge for the year	-	318	11	37	23	87	476
Written Off	-	-	(10)	-	(20)	-	(30)
Reclassification	-	(21)	7	-	14	-	-
At 30-6-2000	<u>-</u>	<u>2,588</u>	<u>82</u>	<u>275</u>	<u>164</u>	<u>632</u>	<u>3,741</u>

<b>Net Book Value</b>							
At 30-6-2000	10,270	13,303	629	2,373	1,265	5,382	33,222
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
<b>Net Book Value</b>							
At 30-6-1999	10,790	14,636	127	2,410	255	3,818	32,036
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
<b>Depreciation charge for the year ended 30-6-1999</b>							
	-	320	4	17	8	86	435
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
	<u>=====</u>						

### 13. DEPOSITS FROM CUSTOMERS

Types

	2000 RM'000	1999 RM'000
Fixed/Investment deposits	8,586,549	8,055,140
Negotiable instruments of deposits	85,000	60,000
	<u>-----</u>	<u>-----</u>
	8,671,549	8,115,140
Savings deposits	849,196	676,006
	<u>-----</u>	<u>-----</u>
	9,520,745	8,791,146
	<u>=====</u>	<u>=====</u>

(a) The maturity structure of fixed and investment deposits and negotiable instruments of deposits are as follows:-

	2000 RM'000	1999 RM'000
Due within six months	6,856,951	6,937,727
Six months to one year	1,483,241	1,027,348
One year to three years	326,310	136,165
Three years to five years	5,047	13,900
	<u>-----</u>	<u>-----</u>
	8,671,549	8,115,140
	<u>=====</u>	<u>=====</u>

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

	2000 RM'000	1999 RM'000
Business enterprises	911,692	514,274
Individuals	7,068,579	6,918,342
Others	1,540,474	1,358,530
	<u>-----</u>	<u>-----</u>
	9,520,745	8,791,146
	<u>=====</u>	<u>=====</u>

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2000 RM'000	1999 RM'000
Licensed banks	275,000	40,000
Licensed financial institutions	226,000	-
Other financial institutions	160,000	145,000
	-----	-----
	661,000	185,000
	=====	=====

15. OTHER LIABILITIES

	2000 RM'000	1999 RM'000
Agents' rebates	225	248
Proposed dividend	37,872	4,734
Taxation	56,520	26,444
Zakat (Note 34(8))	47	28
Provision for staff retirement benefits	5,370	5,581
Provision for damages (Note (i))	2,400	1,200
Other liabilities	208,806	316,080
	-----	-----
	311,240	354,315
	=====	=====

(i) Provision for Damages

Pursuant to the judgement of the Federal Court of Kuala Lumpur with regard to litigation taken up by a borrower against the Company jointly with the subsidiary, Pelita Terang Sdn Bhd, the Company is liable to pay damages and costs to the borrower for breach of collateral warranty. An order for the award of damages is subject to continued proceedings. The Company has made additional provision of RM 1,200,000 (1999 : RM 1,200,000) during the year and an accumulated provision of RM 2,400,000 against this liability.

The provision will be reviewed from year to year as the litigation progresses

16. SHARE CAPITAL

	2000 RM'000	1999 RM'000
Ordinary shares of RM1 each		
Authorised capital	600,000	600,000
	=====	=====
Issued and fully paid capital:-		
Balance as at 1 July / 30 June	263,000	263,000
	=====	=====

17. RESERVES

	2000 RM'000	1999 RM'000
Statutory reserve		
Balance as at 1 July	150,794	145,643
Transfer from income statement	37,872	5,151
	-----	-----
Balance as at 30 June	188,666	150,794
Retained profits	187,900	112,156
	-----	-----
	<u>376,566</u>	<u>262,950</u>

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act 1989 and is not distributable as cash dividends.

Subject to agreement with the Inland Revenue Board:-

- (i) The Company has tax exempt account estimated at approximately RM 17,794,000 arising from previous year's operation which is available for future distribution as tax exempt dividend.
- (ii) The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profits as at 30 June 2000.

18. INTEREST INCOME

	2000 RM'000	1999 RM'000
Loans and advances	595,963	687,019
Money at call and deposit placements with financial institutions	109,141	148,860
Dealing securities	6,960	9,827
Investment securities	15,138	56,864
Others	12,316	8,108
	-----	-----
	739,518	910,678
Amortisation of premium less accretion of discounts	19,531	8,658
Net interest suspended	(65,858)	(97,622)
	-----	-----
	<u>693,191</u>	<u>821,714</u>

19.	INTEREST EXPENSES		
		2000	1999
		RM'000	RM'000
	Deposits and placements of banks and other financial institutions	11,091	8,100
	Deposits from other customers	334,394	601,001
	Others	17,309	13,913
		-----	-----
		362,794	623,014
		=====	=====
20.	LOAN AND FINANCING LOSS AND PROVISION		
		2000	1999
		RM'000	RM'000
	Provision for bad and doubtful debts and financing:-		
	- specific provision (net)	82,884	125,749
	- general provision	20,500	9,100
		-----	-----
		103,384	134,849
	Bad debts and financing:-		
	- written off	243	14
	- recovered	(432)	(221)
		-----	-----
		103,195	134,642
		-----	-----
	Provision on amounts recoverable from Danaharta:-		
	- provision for value impairment during the year	266	254
		-----	-----
		103,461	134,896
		=====	=====
21.	NON-INTEREST INCOME		
		2000	1999
		RM'000	RM'000
	<b>Fee income</b>		
	Commission	4,704	2,599
	Service charges and fees	8,146	2,659
	Other fee income	30,893	6,952
		-----	-----
		43,743	12,210
		-----	-----
	<b>Investment income</b>		
	Net profit from dealing securities	17,105	27,246
	(Loss)/Gain from sale of investment securities	(90)	51
	Gross dividends from:-		
	Investment securities	333	337
	Write back of provision for diminution in value of investment securities:-		
	Quoted shares	173	622
		-----	-----
		17,521	28,256
		-----	-----

<b>Other income</b>		
Rental income	669	719
Gain on disposal of property, plant and equipment	189	30
Other non-operating income	652	320
	-----	-----
	1,510	1,069
	-----	-----
	62,774	41,535
	=====	=====

22. OVERHEAD EXPENSES

	2000	1999
	RM'000	RM'000
Personnel costs	55,262	43,727
Establishment costs	25,684	24,115
Marketing expenses	19,761	17,874
Administration and general expenses	6,531	5,616
	-----	-----
	107,238	91,332
	=====	=====

The number of employees of the Company (excluding directors) at the end of the year was 1,510 (1999: 1,491).

The above expenditure includes the following statutory disclosures:-

	2000	1999
	RM'000	RM'000
Directors' remuneration (Note 24)	763	789
Rental of premises	8,263	8,412
Auditors' remuneration	87	80
Depreciation of property, plant and equipment	8,501	8,814
Dealers' commission	14,638	14,281
Staff retirement benefits	728	751
Property, plant and equipment written off	276	15
	=====	=====

23. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

	<u>Parent Company</u> RM'000	<u>Subsidiary Companies</u> RM'000	<u>Other related Companies</u> RM'000
2000			
<b>Income</b>			
Rental	-	-	53
Interest on advances	-	-	-
Commission on Group products/ services sold	-	-	4,715
	-----	-----	-----
	-	-	4,768
	=====	=====	=====
<b>Expenditure</b>			
Rental	-	30	4,209
Interest on fixed deposit	-	70	6,318
	-----	-----	-----
	-	100	10,527
	=====	=====	=====
<b>Amount due from</b>			
Loans and advances	-	260	-
	=====	=====	=====
<b>Amount due to</b>			
Fixed deposits	-	1,862	126,752
	=====	=====	=====

	<u>Parent Company</u> RM'000	<u>Subsidiary Companies</u> RM'000	<u>Other related Companies</u> RM'000
1999			
<b>Income</b>			
Rental	-	-	98
Interest on advances	-	-	1,631
Commission on Group products/ services sold	-	-	2,488
	-----	-----	-----
	-	-	4,217
	=====	=====	=====
<b>Expenditure</b>			
Rental	-	30	4,233
Interest on fixed deposit	-	74	45,869
	-----	-----	-----
	-	104	50,102
	=====	=====	=====
<b>Amount due from</b>			
Loans and advances	-	567	4,193
	=====	=====	=====
<b>Amount due to</b>			
Fixed deposits	-	992	209,921
	=====	=====	=====

## 24. DIRECTORS' REMUNERATION

Forms of remuneration in aggregate for all Directors charged to the profit for the year are as follows:-

	2000 RM'000	1999 RM'000
Fees	330	380
Other remuneration	433	409
	-----	-----
	763	789
	=====	=====

The estimated cash value of benefits-in-kind of Directors amounted to RM 6,600 (1999: RM 14,700).

## 25. TAXATION

	2000 RM'000	1999 RM'000
Malaysian income tax	67,988	-
Overprovision in previous years	(18,254)	-
	-----	-----
	49,734	-
	=====	=====

The effective tax rate is higher than statutory rate due to certain non-deductible items.

## 26. EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the Company's profit after taxation and zakat of RM 151,488,000 (1999: RM20,605,000), and on the actual number of 263,000,000 (1999: 263,000,000) ordinary shares of RM1.00 each in issue during the financial year.

## 27. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The risk weighted exposure of the Company as at 30 June are as follows: -

	2000		1999	
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000
Direct credit substitutes	2,054	2,054	1,898	1,898
Housing / hire purchase loans sold directly to Cagamas Berhad	415,578	415,578	392,222	392,222
Interest rates related contracts				
- forward and future contracts	5,000	5	40,000	277
- interest rate swaps	350,000	6,997	60,000	2,212
Irrevocable commitment to extend credits: -				
- within one year	618,112	-	667,136	-
- exceeding one year	478,576	239,288	483,077	241,539
	<u>1,869,320</u>	<u>663,922</u>	<u>1,644,333</u>	<u>638,148</u>

The Company is contingently liable in respect of housing and hire purchase loans sold to Cagamas Berhad, under the condition that the Company undertakes to administer the loans on behalf of Cagamas Berhad and to buy back as and when the loans are regarded as defective based on prudence concept.

The interest rate related contracts are subject to market risks.

### Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 30 June 2000, the amount of contracts which were not hedged and, hence, exposed to market risk was RM 5,000,000 (1999: RM 25,000,000).

28. CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:-

	2000 RM'000	1999 RM'000
Authorised and contracted for	947	580
Authorised but not contracted for	2,683	3,351
	-----	-----
	3,630	3,931
	=====	=====

29. HOLDING AND ULTIMATE HOLDING COMPANIES

The immediate holding company is Hong Leong Bank Berhad, a public listed company incorporated in Malaysia.

The Directors regard Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia, as the ultimate holding company.

30. CAPITAL ADEQUACY

The capital adequacy ratios of the Company are as follows:-

	2000 RM'000	1999 RM'000
<u>Tier-1 capital</u>		
Paid-up share capital	263,000	263,000
Reserves	376,566	262,950
	-----	-----
Total Tier-1 capital	639,566	525,950
	-----	-----
<u>Tier-II capital</u>		
General provisions for bad and doubtful debts	124,432	103,932
	-----	-----
Capital base	763,998	629,882
	=====	=====

Breakdown of risk-weighted assets in the various categories of risk-weights:-

	2000 RM'000	1999 RM'000
0%	544,577	547,736
10%	330,000	320,000
20%	4,254,011	2,984,315
50%	990,911	1,002,012
100%	5,298,084	4,906,673
	-----	-----
	11,417,583	9,760,736
	=====	=====
 Total risk weighted assets	 6,677,342	 6,036,542
	=====	=====

### **CAPITAL RATIOS**

Core capital ratio	9.58%	8.71%
Risk-weighted capital ratio	11.44%	10.43%

### 31. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (i) Hong Leong Bank Berhad (“HLB”), the holding company of the Company, had established an Executive Share Option Scheme for eligible executives and executive directors of the HLB Group.
- (ii) Visia Nominees Sdn Bhd, a wholly-owned subsidiary of HLF, is in members’ voluntary liquidation as the company had remained dormant and there were no plans to activate it.

### 32. GENERAL INFORMATION

The Company is a limited liability company that is domiciled in Malaysia.

### 33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year’s presentation.

34. THE OPERATION OF ISLAMIC BANKING SCHEME  
(SKIM PERBANKAN ISLAM OR "SPI")

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 JUNE 2000

	Note	2000 RM'000	1999 RM'000
<b>ASSETS</b>			
Cash and short-term funds	1	26,117	46,991
Investment securities	2	306,749	235,676
Loans, advances and financing	3	401,435	116,807
Other assets		834	9,524
Statutory deposit with Bank Negara Malaysia	4	29,424	13,727
Property, plant and equipment	5	236	272
		-----	-----
<b>TOTAL ASSETS</b>		<b>764,795</b>	<b>422,997</b>
		=====	=====
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>			
Deposits from customers	6	563,836	360,011
Deposits and placements of banks and other financial institutions	7	121,000	40,000
Other liabilities	8	58,166	7,763
		-----	-----
<b>TOTAL LIABILITIES</b>		<b>743,002</b>	<b>407,774</b>
		-----	-----
<b>ISLAMIC BANKING FUND</b>	9	<b>21,793</b>	<b>15,223</b>
		-----	-----
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>		<b>764,795</b>	<b>422,997</b>
		=====	=====

The accompanying Notes form an integral part of the Financial Statements.

THE OPERATION OF SPI

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

INCOME STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2000

	Note	2000 RM'000	1999 RM'000
Income	10	19,997	7,826
Loan, and financing loss and provision	11	(8,382)	(986)
		-----	-----
Net income		11,615	6,840
Overhead expenses	12	(1,332)	(864)
		-----	-----
Profit before taxation and zakat		10,283	5,976
Taxation		(3,666)	-
Zakat		(47)	(28)
		-----	-----
Profit after taxation and zakat		6,570	5,948
Retained profits brought forward		10,223	4,275
		-----	-----
Retained profits carried forward		16,793	10,223
		=====	=====

The accompanying Notes form an integral part of the Financial Statements.

HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

NOTES TO THE ACCOUNTS

THE OPERATION OF SPI

(1) CASH AND SHORT-TERM FUNDS

	2000 RM'000	1999 RM'000
Cash and balances with banks and other financial institutions	4,567	14,911
Money at call and deposit placements maturing within one month	21,550	32,080
	-----	-----
	26,117	46,991
	=====	=====

(2) INVESTMENT SECURITIES

	2000 RM'000	1999 RM'000
Money market instruments:-		
Malaysian Government investment certificates	13,198	13,204
Islamic accepted bills	293,551	222,472
	-----	-----
Total investment securities	306,749	235,676
	=====	=====

The maturity structure of money market instruments held for investment are as follows:-

	2000 RM'000	1999 RM'000
Maturing within one year	306,749	222,472
One year to three years	-	13,204
	-----	-----
	306,749	235,676
	=====	=====

(3) LOANS, ADVANCES AND FINANCING

	2000 RM'000	1999 RM'000
Housing financing	53,262	2,919
Islamic hire purchase	490,193	148,636
Staff financing	576	793
	-----	-----
	544,031	152,348
Unearned income	(131,589)	(33,118)
	-----	-----
Gross loans, advances and financing	412,442	119,230
Provision for bad and doubtful debts and financing		
- general	(9,455)	(2,081)
- specific	(1,020)	(12)
Income-in-suspense	(532)	(330)
	-----	-----
Net loans, advances and financing	<u>401,435</u>	<u>116,807</u>

(i) Loans, advances and financing analysed by concepts are as follows:-

	2000 RM'000	1999 RM'000
Al-Bai Bithuman Ajil	24,210	1,316
Al-Ijarah Thumma Al-Bai'	388,232	117,914
	-----	-----
	<u>412,442</u>	<u>119,230</u>

(ii) The maturity structure of loans, advances and financing are as follows:-

	2000 RM'000	1999 RM'000
Maturing within one year	5,022	1,840
One year to three years	87,081	26,950
Three years to five years	229,289	85,116
Over five years	91,050	5,324
	-----	-----
	<u>412,442</u>	<u>119,230</u>

(iii) Loans, advances and financing according to economic sector are as follows:-

	2000 RM'000	1999 RM'000
Agriculture	363	-
Mining and quarrying	48	-
Manufacturing	1,548	-
Electricity, gas and water	516	-
Construction	2,065	-
Real estate	12	-
Purchase of landed property (of which		
i) Residential	22,746	1,303
ii) Non-residential )	700	-
General commerce	2,726	151
Transport, storage and communication	1,781	132
Finance, insurance and business services	256	-
Purchase of transport vehicles	342,392	106,690
Consumption credit	1,090	244
Others	36,199	10,710
	-----	-----
	412,442	119,230
	=====	=====

(iv) Movements in the non-performing loans and financing (including income receivable) are as follows:-

	2000 RM'000	1999 RM'000
Balance as at 1 July	3,330	1,752
Non-performing during the year (gross)	1,388	1,978
Recoveries	(350)	(100)
Reclassified as performing	(520)	(300)
	-----	-----
Balance as at 30 June	3,848	3,330
	=====	=====
As % of gross loans, advances and financing less specific provision and income-in-suspense	0.6%	2.5%
	=====	=====

- (v) Movements in the provision for bad and doubtful debts and financing and income-in-suspense accounts are as follows:-

	2000 RM'000	1999 RM'000
<u>General Provision</u>		
Balance as at 1 July	2,081	1,095
Provision made during the year	7,374	986
	-----	-----
Balance as at 30 June	9,455	2,081
	=====	=====
As % of gross loans, advances and financing less specific provision and income-in-suspense	2.3%	1.8%
	=====	=====
<u>Specific Provision</u>		
Balance as at 1 July	12	12
Provision made during the year	1,112	-
Amount written back in respect of recoveries	(104)	-
	-----	-----
Balance as at 30 June	1,020	12
	=====	=====
<u>Income-in-Suspense</u>		
Balance as at 1 July	330	82
Provision made during the year	479	297
Amount written back in respect of recoveries	(277)	(49)
	-----	-----
Balance as at 30 June	532	330
	=====	=====

(4) STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Ordinance 1958, the amount of which is determined as set percentages of total eligible liabilities.

(5) PROPERTY, PLANT AND EQUIPMENT

	Office Equipment & Furniture RM'000	Computer Equipment & Softwares RM'000	Office Renovation RM'000	Total RM'000
<b>Cost</b>				
At 1-7-1999	37	139	163	339
Additions	7	5	-	12
Reclassification	8	-	(8)	-
	-----	-----	-----	-----
At 30-6-2000	52	144	155	351
	=====	=====	=====	=====
<b>Accumulated Depreciation</b>				
At 1-7-1999	5	38	24	67
Charge for the year	7	27	14	48
	-----	-----	-----	-----
At 30-6-2000	12	65	38	115
	=====	=====	=====	=====
<b>Net Book Value</b>				
At 30-6-2000	40	79	117	236
	=====	=====	=====	=====
<b>Net Book Value</b>				
At 30-6-1999	32	101	139	272
	=====	=====	=====	=====
<b>Depreciation charge for year ended 30-6-1999</b>	5	38	24	67
	=====	=====	=====	=====

(6) DEPOSITS FROM CUSTOMERS

Types	2000 RM'000	1999 RM'000
General Investment deposits	436,902	269,149
Savings deposits	126,934	90,862
	-----	-----
Total deposits	563,836	360,011
	=====	=====

(a) The maturity structure of investment deposits are as follows:-

	2000 RM'000	1999 RM'000
Due within six months	415,572	249,517
Six months to one year	20,378	18,950
One year to three years	932	612
Three years to five years	20	70
	<u>436,902</u>	<u>269,149</u>

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

	2000 RM'000	1999 RM'000
Business enterprises	50,863	17,457
Individuals	333,447	240,178
Others	179,526	102,376
	<u>563,836</u>	<u>360,011</u>

(7) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2000 RM'000	1999 RM'000
Licensed banks	<u>121,000</u>	<u>40,000</u>

(8) OTHER LIABILITIES

	2000 RM'000	1999 RM'000
Taxation	5,235	1,569
Zakat	47	28
Other liabilities	52,884	6,166
	<u>58,166</u>	<u>7,763</u>

(9) ISLAMIC BANKING FUNDS (IBF)

	2000 RM'000	1999 RM'000
Funds allocated from Head Office	5,000	5,000
Retained profits	16,793	10,223
	<u>21,793</u>	<u>15,223</u>

(10) INCOME FROM SPI OPERATION

	2000 RM'000	1999 RM'000
Income derived from investment of depositors fund	38,644	23,887
Income attributable to depositors:- Other customer	(18,903)	(16,171)
	-----	-----
Income attributable to Company	19,741	7,716
Other SPI Income	256	110
	-----	-----
	<u>19,997</u>	<u>7,826</u>

Details of the income derived from investment of depositors and funds allocated from Head Office are as follows:-

	Depositors' Funds RM'000	IBF RM'000
2000		
Income from financing	27,036	860
Investment income:		
Income from dealing / investment securities	9,953	317
Gain from sale of investment securities	463	15
	-----	-----
	37,452	1,192
Other income:		
Other non-operating income	248	8
	-----	-----
	<u>37,700</u>	<u>1,200</u>

	Depositors' Funds RM'000	IBF RM'000
1999		
Income from financing	11,553	440
Investment income:		
Income from dealing / investment securities	9,313	354
Net profit from dealing securities	1,498	57
Gain from sale of investment securities	647	25
	-----	-----
	23,011	876
Other income:		
Other non-operating income	106	4
	-----	-----
	<u>23,117</u>	<u>880</u>

(11) LOAN AND FINANCING LOSS AND PROVISION	2000 RM'000	1999 RM'000
Provision for bad and doubtful debts and financing:-		
- specific provision (net)	1,008	-
- general provision	7,374	986
	-----	-----
	8,382	986
	=====	=====
(12) OVERHEAD EXPENSES	2000 RM'000	1999 RM'000
Personnel costs	661	421
Establishment costs	217	189
Marketing expenses	485	193
Administration and general expenses	(31)	61
	-----	-----
	1,332	864
	=====	=====

REPORT OF THE AUDITORS TO THE MEMBERS OF  
HONG LEONG FINANCE BERHAD  
(Incorporated in Malaysia)

We have audited the financial statements of HONG LEONG FINANCE BERHAD. The preparation of the financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanation, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatements. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements which have been prepared under the historical cost convention are properly drawn up in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-

- (i) the matters required by Section 169 of the Companies Act 1965 to be dealt with in the financial statements of the Company; and
  - (ii) the state of affairs of the Company at 30 June 2000 and of the results of the operations of the Company and of the cash flows of the Company for the year ended on that date; and
- (b) the accounting and other records and the registers required by the Companies Act 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

LING KAM HOONG & CO  
AF: 0106  
PUBLIC ACCOUNTANTS, MALAYSIA

LING KAM HOONG  
161/5/02 (J/PH)

Kuala Lumpur

Date