

COMPANY NUMBER 7797-V

HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2002**

COMPANY NUMBER 7797-V

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(Incorporated in Malaysia)

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HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the carrying on of the business of a licensed finance company. The principal activities of the subsidiary companies, all of which are not consolidated with the Company, are set out in note 11 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

OUTLOOK AND BUSINESS PLAN FOR NEW FINANCIAL YEAR

The Company will continue to focus its business, particularly in Hire Purchase, Mortgage and Share Margin Financing. The Company is expected to face challenges ahead in light of the moderation of economic activities. In spite of the changing economic environment, attention is given to create value for our customers by delivering our product and services leveraging on technology. The Company is working with the Group to create a single platform system which will further enhance customer relation. As in prior years, the Company will maintain its prudent credit and risk management control procedures as well as ensure that good corporate governance is practised throughout the organisation.

FINANCIAL RESULTS

	RM'000
Profit before taxation and zakat	403,648
Taxation	(115,020)

Profit after taxation and zakat	288,628
Transfer to statutory reserve	(144,314)

Profit after transfer to statutory reserve	144,314
Retained profits brought forward	282,958

Profits available for distribution	427,272
Dividends	(106,560)

Retained profits carried forward	320,712
	=====

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DIVIDENDS

As proposed and included in last year's report, a final dividend of 13% less tax amounting to RM56,160,000 and 3% tax exempt amounting to RM18,000,000 for the financial year ended 30 June 2001 was paid on 16 November 2001. An interim dividend of 7.5% less tax amounting to RM32,400,000 in respect of the financial year ended 30 June 2002 was paid on 12 March 2002. The Directors propose a final dividend of 19.5% less tax amounting to RM84,240,000 in respect of the financial year ended 30 June 2002.

SHARE CAPITAL

There were no changes in the issued and paid up capital of the Company during the year under review.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

DIRECTORS

The Directors in office since the date of the last report are as follows:-

YBhg Tan Sri Quek Leng Chan
Mr Lee Kam Chuen
YBhg Dato' James Lim Cheng Poh
YBhg Dato' Haji Kamarulzaman bin Mohamed
Mr Kwek Leng Hai
Mr Kwek Leng Kee
Mr Chuah Chuan Thye
YBhg Dato' Ismail Mohamed
Mr Tan Keok Yin
YBhg Datuk Roger Tan Kim Hock (Appointed on 28 November 2001)

In accordance with Article 109 of the Company's Articles of Association, Messrs Kwek Leng Hai, Kwek Leng Kee and Tan Keok Yin retire by rotation from the Board and, being eligible, offer themselves for re-election.

In accordance with Article 90 of the Company's Articles of Association, YBhg Datuk Roger Tan Kim Hock retires from the Board and, being eligible, offers himself for re-election.

In accordance with Section 129 of the Companies Act 1965, YBhg Dato' Haji Kamarulzaman bin Mohamed retires and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

No Directors holding office at the end of the financial year had any beneficial interest in the ordinary shares and/or stock units and/or warrants/options/irredeemable convertible unsecured loan stocks of the Company and/or related corporations during the financial year ended 30 June 2002, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act 1965, except for YBhg Tan Sri Quek Leng Chan, YBhg Dato' James Lim Cheng Poh, Mr Kwek Leng Hai and YBhg Datuk Roger Tan Kim Hock whose beneficial interests are disclosed in the Directors' Report of the Holding Company as provided for under Section 134(3) of the said Act whilst the beneficial interests of YBhg Dato' Haji Kamarulzaman bin Mohamed, Messrs Kwek Leng Kee, Chuah Chuan Thye and Lee Kam Chuen are as follows:-

**Shareholdings in which Directors have direct interests
Number of ordinary shares/ stock units/new shares to be
issued arising from the exercise of warrants/options/
irredeemable convertible unsecured loan stocks***

	<u>Nominal Value Per Share</u> RM	<u>Balance as at 1 July 2001</u>	<u>Acquired/ Rights Issue@/ Conversion of warrants to shares+</u>	<u>Sold/ Conversion of warrants to shares+</u>	<u>Balance as at 30 June 2002</u>
Interests of YBhg Dato' Haji Kamarulzaman bin Mohamed in:-					
Hong Leong Credit Berhad	1.00	21,000	4,000@ 4,000+	- -	29,000 -
		4,000*	204@	4,000+	204* (See Note 1)
Hong Leong Bank Berhad	1.00	479,000	-	-	479,000
Interests of Mr Kwek Leng Kee in:-					
Hong Leong Company (Malaysia) Berhad	1.00	111,650	-	-	111,650
Interests of Mr Lee Kam Chuen in:-					
Hong Leong Bank Berhad	1.00	23,114 800,000*	160,000 -	110,000 160,000	73,114 640,000*
Interests of Mr Chuah Chuan Thye in:-					
Guolene Packaging Industries Berhad	1.00	3,000	-	3,000	-

Shareholdings in which Directors have indirect interests
Number of ordinary shares/ stock units/new shares to be
issued arising from the exercise of warrants/options/
irredeemable convertible unsecured loan stocks*

	<u>Nominal</u> <u>Value</u> <u>Per Share</u> <u>RM</u>	<u>Balance</u> <u>as at</u> <u>1 July 2001</u>	<u>Acquired/</u> <u>Rights Issue@/</u> <u>Conversion of</u> <u>warrants to</u> <u>shares+</u>	<u>Sold/</u> <u>Conversion of</u> <u>warrants to</u> <u>shares+</u>	<u>Balance</u> <u>as at</u> <u>30-6-2002</u>
Interests of					
Mr Chuah Chuan Thye in:-					
Hong Leong Credit Berhad	1.00	4,442,833 677,897*	740,472@ 34,537@	25,000 712,434	5,158,305 -
Hong Leong Company (Malaysia) Berhad	1.00	154,650	-	-	154,650
Hume Cemboard Berhad	1.00	10,000	-	-	10,000
Hong Leong Industries Berhad	0-50	1,998,800 291,875*	-	84,000	1,998,800 207,875*
Hong Leong Bank Berhad	1.00	120,000	1,995,800& -	-	1,995,800& 120,000

Legend:-

& Irredeemable Convertible Unsecured Loan Stocks 2002/2007

Note 1: All outstanding Hong Leong Credit Berhad's Replacement Warrant not exercised had lapsed and become null and void on 27 November 2001 at 5.00 p.m.

DIRECTORS' BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the financial statements or the fixed salary of a full-time employee of the Company or of a related company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares, stocks-in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or the provision of

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services, including but not limited to project and sales management and any other management and consultancy services; and/or the provision of construction contracts, leases, tenancy, dealership and distributorship agreements; and/or the provision of treasury functions, advances and the conduct of normal trading, insurance, investment, leasing, stockbroking and/or other businesses between the Company and its related corporations or corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

OTHER STATUTORY INFORMATION REGARDING THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps:-
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of the operations of the Company during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

- (a) The Directors are not aware of any circumstances:-
 - (i) which would render the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any material extent;
 - (ii) which would render the values attributed to current assets in the financial statements misleading; and
 - (iii) which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

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(b) In the opinion of the Directors:-

- (i) the results of the operations of the Company for the financial year ended 30 June 2002 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

- (a) There are no charges on the assets of the Company which had arisen since the end of the financial year to secure the liabilities of any other person.
- (b) There are no contingent liabilities which had arisen since the end of the financial year.
- (c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

AUDITORS

The auditors, Messrs Ling Kam Hoong & Co, have expressed their willingness to continue in office.

On behalf of the Board of Directors

.....)
Lee Kam Chuen)
)
) Directors
)
)
.....)
YBhg Dato' James Lim Cheng Poh

Kuala Lumpur

15 August 2002

HONG LEONG FINANCE BERHAD
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BALANCE SHEET AS AT 30 JUNE 2002

	Note	2002 RM'000	2001 RM'000
ASSETS			
Cash and short-term funds	3	2,739,306	1,919,932
Deposits and placements with financial institutions	4	1,609,800	946,500
Dealing securities	5	488,796	773,213
Investment securities	6	895,969	1,113,377
Loans, advances and financing	7	10,848,528	10,910,230
Other assets	8	82,106	131,251
Statutory deposit with Bank Negara Malaysia	10	451,474	434,610
Investment in subsidiary companies	11	1,248	1,248
Property, plant and equipment	12	67,125	68,570
Total Assets		<u>17,184,352</u>	<u>16,298,931</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
Deposits from customers	13	14,850,296	13,928,596
Deposits and placements of banks and other financial institutions	14	311,580	360,700
Other liabilities	15	365,901	361,177
Amount due to Cagamas		292,703	466,654
Total Liabilities		<u>15,820,480</u>	<u>15,117,127</u>
SHARE CAPITAL	16	600,000	600,000
RESERVES	17	763,872	581,804
Shareholders' Funds		<u>1,363,872</u>	<u>1,181,804</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>17,184,352</u>	<u>16,298,931</u>
COMMITMENTS AND CONTINGENCIES	28	<u>2,502,637</u>	<u>1,718,312</u>

The above balance sheet is to be read in conjunction with the notes to the financial statements on pages 12 to 49.

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INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Note	2002 RM'000	2001 RM'000
Interest income	18	1,114,426	979,303
Interest expense	19	(508,431)	(464,528)
		-----	-----
Net interest income		605,995	514,775
SPI income	36(10)	102,150	59,374
		-----	-----
		708,145	574,149
Loan and financing loss and provision	20	(164,931)	(114,034)
		-----	-----
		543,214	460,115
Non-interest income	21	65,725	27,196
		-----	-----
Net income		608,939	487,311
Overhead expenses	22	(204,091)	(148,073)
Provision for damages	15(i)	(1,200)	(1,200)
		-----	-----
Profit before taxation and zakat		403,648	338,038
Taxation	25	(115,020)	(117,680)
Zakat		-	-
		-----	-----
Profit after taxation and zakat		288,628	220,358
		=====	=====
Earnings per share (sen)	26	48	55
		=====	=====
Dividends per share (sen)			
- Interim dividend of 7.5 sen (2001:3.5 sen) less tax		5.4	2.5
- Proposed final dividends of			
- 19.5 sen (2001:13.0 sen) less tax		14.0	9.4
- Nil (2001:3.0 sen) tax exempt		-	3.0
		-----	-----
		19.4	14.9
		=====	=====

The above income statements is to be read in conjunction with the notes to the financial statements on pages 12 to 49.

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Share Capital RM'000	Statutory Reserve RM'000	Retained Profits RM'000	Total RM'000
At 1 July 2000				
As previously reported	263,000	188,666	187,900	639,566
Prior year adjustment (Note 33)	-	-	37,872	37,872
	-----	-----	-----	-----
Restated balance	263,000	188,666	225,772	677,438
Issue of shares	337,000	-	-	337,000
Net profit for the year	-	-	220,358	220,358
Transfer to statutory reserve	-	110,180	(110,180)	-
Dividends (Note 27)	-	-	(52,992)	(52,992)
	-----	-----	-----	-----
At 30 June 2001	600,000	298,846	282,958	1,181,804
	=====	=====	=====	=====
At 1 July 2001				
As previously reported	600,000	298,846	208,798	1,107,644
Prior year adjustment (Note 33)	-	-	74,160	74,160
	-----	-----	-----	-----
Restated balance	600,000	298,846	282,958	1,181,804
Net profit for the year	-	-	288,628	288,628
Transfer to statutory reserve	-	144,314	(144,314)	-
Dividends (Note 27)	-	-	(106,560)	(106,560)
	-----	-----	-----	-----
At 30 June 2002	600,000	443,160	320,712	1,363,872
	=====	=====	=====	=====

The above statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 12 to 49.

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CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	2002	2001
	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before taxation and zakat	403,648	338,038
Adjustments for:-		
Depreciation of property, plant and equipment	11,578	9,489
Gain on disposal of property, plant and equipment	(553)	(448)
Property, plant and equipment written off	398	812
Provision for bad and doubtful debts	174,614	120,432
Provision for interest-in-suspense	98,299	72,316
Provision for staff retirement benefits	1,028	844
Provision for damages	1,200	1,200
Investment income		
- interest income from dealing securities	(22,557)	(14,748)
- interest income from investment securities	(8,787)	(20,994)
- dividend income	(3,921)	(3,863)
- gain on sale of dealing and investment securities	(23,759)	(22,777)
(Writeback)/Provision for diminution in value of investment securities	(16,021)	11,273
	-----	-----
Operating profit before working capital changes	615,167	491,574
(Increase)/Decrease in working capital:-		
Deposits and placements with financial institutions	(663,300)	663,800
Loans, advances and financing	(198,516)	(5,001,313)
Other assets	36,451	(92,203)
Statutory deposits with Bank Negara Malaysia	(16,864)	(200,640)
Deposits from customers	921,700	4,407,851
Deposits and placements of banks and other financial institutions	(49,120)	(300,300)
Other liabilities	66,557	(704)
Amount due to Cagamas	(173,951)	51,076
	-----	-----
Cash generated from operations	538,124	19,141
Payment of staff retirement benefits	(1,264)	(1,590)
Income taxes paid	(178,237)	(29,621)
	-----	-----
Net cash used in operating activities	358,623	(12,070)
	-----	-----

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	2002	2001
	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase)/Disposal of dealing and investment securities (net)	541,605	(1,000,980)
Purchase of property, plant and equipment (Note (i))	(10,392)	(19,759)
Proceeds from sale of property, plant and equipment	906	700
Dividend received	3,921	3,863
Interest received from dealing securities	22,557	14,748
Interest received from investment securities	8,787	20,994
	-----	-----
Net cash generated from/(used in) investing activities	567,384	(980,434)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	337,000
Dividend paid	(106,560)	(52,992)
Repayment of lease creditor	(73)	-
	-----	-----
Net cash (used in)/generated from financing activities	(106,633)	284,008
	-----	-----
Net increase/(decrease) in cash and cash equivalents	819,374	(708,496)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	1,919,932	2,628,428
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	2,739,306	1,919,932
	=====	=====
ANALYSIS OF CASH AND CASH EQUIVALENTS:-		
Cash and short-term funds	2,739,306	1,919,932
	=====	=====

- Note
- (i) **Purchase of property, plant and equipment**
During the financial year, the Company made the following cash payments to purchase property, plant and equipment:-

	2002	2001
	RM'000	RM'000
Purchase of property, plant and equipment (Note 12)	10,885	-
Financed by lease arrangements	(493)	-
	-----	-----
Cash payments on purchase of property, plant and equipment	10,392	-
	=====	=====

The above statement of changes in financial position is to be read in conjunction with the notes to the financial statements on pages 12 to 49.

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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 business which have been undertaken by the Company.

Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the Syariah principles.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements of the Company has been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies.

(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, 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. Interest earned whilst holding dealing securities is reported as interest income. Dividend received are included separately in dividend income.

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 Bank Guaranteed 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 Private Debt Securities are valued at the lower of cost and market value. 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 2001.

(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.

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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.

(p) Cash and cash equivalents

Cash and cash equivalents are cash and short term funds held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

3. CASH AND SHORT-TERM FUNDS

	2002	2001
	RM’000	RM’000
Cash and balances with banks and other financial institutions	124,416	101,682
Money at call and deposit placements maturing within one month	2,614,890	1,818,250
	-----	-----
	<u>2,739,306</u>	<u>1,919,932</u>
	=====	=====

4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2002	2001
	RM’000	RM’000
Licensed banks	55,000	506,000
Licensed finance companies	50,600	65,600
Other financial institutions	1,504,200	374,900
	-----	-----
	<u>1,609,800</u>	<u>946,500</u>
	=====	=====

5. DEALING SECURITIES

	2002	2001
	RM’000	RM’000
Money market instruments:-		
Malaysian Government securities	52,188	333,021
Malaysian Government investment certificates	-	67,753
Cagamas bonds	-	26,355
Negotiable instruments of deposit	130,000	145,220
Bankers’ acceptances	184,450	90,520
Danamodal bonds	103,915	110,344
Private debt securities	18,243	-
	-----	-----
	<u>488,796</u>	<u>773,213</u>
	=====	=====

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	2002	2001
	RM'000	RM'000
Market value of money market instruments:-		
Malaysian Government securities	52,188	337,213
Malaysian Government investment certificates	-	67,853
Cagamas bonds	-	26,355
Danamodal bonds	105,820	110,856
Private debt securities	18,802	-
	=====	=====

6. INVESTMENT SECURITIES

	2002	2001
	RM'000	RM'000
Money market instruments:		
Malaysian Government securities	535	747
Malaysian Government investment certificates	80,000	30,000
Cagamas bonds	43,832	92,809
Cagamas notes	-	9,792
Negotiable instruments of deposit	-	65,000
Bankers' acceptances and Islamic accepted bills	503,295	477,485
Danamodal bonds	49,728	106,119
Danaharta bonds	39,904	81,933
Private debt securities	52,167	126,597
	-----	-----
	769,461	990,482
Quoted securities:		
Shares quoted in Malaysia	33,815	55,463
Loan stocks quoted in Malaysia	45,918	42,023
Unquoted securities:		
Shares	16,948	16,948
Debentures	227	227
Loan stocks	33,548	5,728
	-----	-----
	899,917	1,110,871
Amortisation of premium less accretion of discounts	11,457	33,933
Provision for diminution in value of		
- Quoted shares	(7,358)	(25,055)
- Quoted loan stocks	(865)	-
- Unquoted shares	(2,511)	(2,322)
- Unquoted loan stocks	(4,671)	(4,050)
	-----	-----
	895,969	1,113,377
	=====	=====

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

	2002	2001
	RM'000	RM'000
Malaysian Government securities	612	839
Cagamas bonds	44,090	94,614
Danamodal bonds	56,950	128,593
Danaharta bonds	45,530	91,203
Private debt securities	56,287	152,927
Shares quoted in Malaysia	27,397	30,665
Loan stocks quoted in Malaysia	34,548	19,331
	<u>=====</u>	<u>=====</u>

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

	2002	2001
	RM'000	RM'000
Maturing within one year	531,404	652,907
One year to three years	213,633	175,022
Three years to five years	13,818	108,540
Over five years	10,606	54,013
	<u>-----</u>	<u>-----</u>
	769,461	990,482
	<u>=====</u>	<u>=====</u>

7. LOANS, ADVANCES AND FINANCING

	2002	2001
	RM'000	RM'000
Revolving credit facilities	589,258	601,946
Housing loans	1,733,924	1,786,571
Hire purchase	10,478,747	10,382,576
Lease receivables	50,345	84,183
Factoring	-	27,094
Block discounting	26,381	36,056
Staff loans	52,992	57,650
Other loans	674,937	725,734
	<u>-----</u>	<u>-----</u>
	13,606,584	13,701,810
Unearned interest and income	(2,005,852)	(2,074,782)
	<u>-----</u>	<u>-----</u>
Gross loans, advances and financing	11,600,732	11,627,028
Provision for bad and doubtful debts and financing		
- specific	(294,960)	(266,820)
- general	(181,874)	(213,033)
Interest-in-suspense/Income-in-suspense	(275,370)	(236,945)
	<u>-----</u>	<u>-----</u>
Net loans, advances and financing	10,848,528	10,910,230
	<u>=====</u>	<u>=====</u>

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

	2002 RM'000	2001 RM'000
Maturity within one year	1,645,660	1,418,066
One year to three years	1,887,137	2,717,596
Three years to five years	3,873,275	3,334,678
Over five years	4,194,660	4,156,688
	-----	-----
	<u>11,600,732</u>	<u>11,627,028</u>

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

	2002 RM'000	2001 RM'000
Agriculture	23,518	29,800
Mining and quarrying	19,964	21,552
Manufacturing	159,011	188,622
Electricity, gas and water	25,367	21,584
Construction	640,717	707,121
Real estate	96,163	93,962
Purchase of landed property (of which		
(i) Residential	1,332,453	1,390,231
(ii) Non-residential)	254,535	270,756
General commerce	139,208	172,671
Transport, storage and communication	119,957	159,815
Finance, insurance and business services	152,988	174,041
Purchase of securities	227,008	239,470
Purchase of transport vehicles	8,092,228	7,707,611
Consumption credit	1,782	2,115
Others	315,833	447,677
	-----	-----
	<u>11,600,732</u>	<u>11,627,028</u>

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

	2002 RM'000	2001 RM'000
Balance as at 1 July	1,379,086	867,490
Transfer from CCM	-	631,484
Non-performing during the year (gross)	1,310,485	705,410
Recoveries	(359,297)	(290,240)
Reclassified as performing	(635,920)	(329,820)
Amount written off	(223,067)	(205,238)
	-----	-----
Balance as at 30 June	<u>1,471,287</u>	<u>1,379,086</u>
	=====	=====
As % gross loans, advances and financing less specific provision and interest-in-suspense/income-in-suspense	8.2%	7.9%
	=====	=====

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

	2002 RM'000	2001 RM'000
<u>General Provision</u>		
Balance as at 1 July	213,033	124,432
Transfer from CCM	-	88,601
Amount transferred to specific provision	(31,159)	-
	-----	-----
Balance as at 30 June	<u>181,874</u>	<u>213,033</u>
	=====	=====
As % of gross loans, advances and financing less specific provision and interest-in-suspense/income-in-suspense	1.6%	1.9%
	=====	=====

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	2002	2001
	RM'000	RM'000
<u>Specific Provision</u>		
Balance as at 1 July	266,820	237,876
Transfer from CCM	-	57,156
Provision made during the year	258,310	138,378
Amount transferred from general provision	31,159	-
Amount written back in respect of recoveries	(98,804)	(30,270)
Amount written off	(163,842)	(136,320)
Amount transferred from deferred assets	1,317	-
	-----	-----
Balance as at 30 June	294,960	266,820
	=====	=====

<u>Interest-in-suspense/Income-in-suspense</u>		
Balance as at 1 July	236,945	190,627
Transfer from CCM	-	46,499
Provision made during the year	133,928	92,548
Amount written back in respect of recoveries	(35,629)	(20,232)
Amount written off	(59,225)	(71,553)
Amount transferred to deferred assets	(649)	(944)
	-----	-----
Balance as at 30 June	275,370	236,945
	=====	=====

8. OTHER ASSETS

	2002	2001
	RM'000	RM'000
Other debtors, deposits and prepayments	65,640	100,707
Deferred asset - Ex-Visia (Note 9)	1,403	2,366
Amount recoverable from Danaharta	15,063	28,178
	-----	-----
	82,106	131,251
	=====	=====
Amount recoverable from Danaharta		
Balance as at 1 July	28,178	810
Transfer from CCM	-	37,083
Provision made during the year	(12,695)	(9,715)
Amount recovered	(420)	-
	-----	-----
Balance as at 30 June	15,063	28,178
	=====	=====

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.

10. 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.

11. INVESTMENT IN SUBSIDIARY COMPANIES

	2002	2001
	RM'000	RM'000
Unquoted shares at cost	1,568	1,568
Less: Provision for diminution in value	(320)	(320)
	-----	-----
	1,248	1,248
	=====	=====

The subsidiaries of the Company, which are all incorporated in Malaysia, are as follows:-

<u>Name</u>	<u>Percentage of equity held</u>		<u>Principal activities</u>
	<u>2002</u>	<u>2001</u>	
	%	%	
Pelita Terang Sdn Bhd	100	100	Property development
HLF Credit (Perak) Bhd	100	100	Property investment holding
Visia Nominees Sdn Bhd	100	100	In members' voluntary liquidation

The financial statements of the subsidiaries are not consolidated as Hong Leong Finance Berhad, being a wholly-owned subsidiary of Hong Leong Bank Berhad, is exempted from presenting Group financial statements under Paragraph 5(4)(a) of the Ninth Schedule of the Companies Act 1965.

12. PROPERTY, PLANT AND EQUIPMENT

	*Land & Buildings RM'000	Office Equipment & Furniture RM'000	Computer Equipment & Softwares RM'000	Renovation RM'000	Motor Vehicles RM'000	Total RM'000
Cost						
At 1-7-2001	37,353	24,127	57,612	34,609	2,632	156,333
Additions	-	1,785	8,114	986	-	10,885
Disposals	(256)	(200)	(949)	(28)	(317)	(1,750)
Written off	-	(704)	(191)	(1,021)	-	(1,916)
	-----	-----	-----	-----	-----	-----
At 30-6-2002	<u>37,097</u>	<u>25,008</u>	<u>64,586</u>	<u>34,546</u>	<u>2,315</u>	<u>163,552</u>
Accumulated Depreciation						
At 1-7-2001	4,197	15,079	45,997	20,744	1,746	87,763
Charge for the year	458	1,949	5,852	3,015	304	11,578
Disposals	(35)	(157)	(947)	(18)	(239)	(1,396)
Written off	-	(596)	(184)	(738)	-	(1,518)
	-----	-----	-----	-----	-----	-----
At 30-6-2002	<u>4,620</u>	<u>16,275</u>	<u>50,718</u>	<u>23,003</u>	<u>1,811</u>	<u>96,427</u>
Net Book Value						
At 30-6-2002	<u>32,477</u>	<u>8,733</u>	<u>13,868</u>	<u>11,543</u>	<u>504</u>	<u>67,125</u>
Net Book Value						
At 30-6-2001	<u>33,156</u>	<u>9,048</u>	<u>11,615</u>	<u>13,865</u>	<u>886</u>	<u>68,570</u>
Depreciation charge for the year ended 30-6-2001						
	<u>456</u>	<u>1,520</u>	<u>4,559</u>	<u>2,636</u>	<u>318</u>	<u>9,489</u>

The Net book value of renovation included an amount of RM443,525 (2001: Nil) acquired by way of finance lease installment plan.

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* 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
Cost							
At 1-7-2001	10,400	16,151	711	2,648	1,429	6,014	37,353
Disposal	(119)	(137)	-	-	-	-	(256)
	-----	-----	-----	-----	-----	-----	-----
At 30-6-2002	<u>10,281</u>	<u>16,014</u>	<u>711</u>	<u>2,648</u>	<u>1,429</u>	<u>6,014</u>	<u>37,097</u>
Accumulated Depreciation							
At 1-7-2001	-	2,908	91	307	184	707	4,197
Charge for the year	-	322	3	12	25	96	458
Disposal	-	(35)	-	-	-	-	(35)
	-----	-----	-----	-----	-----	-----	-----
At 30-6-2002	<u>-</u>	<u>3,195</u>	<u>94</u>	<u>319</u>	<u>209</u>	<u>803</u>	<u>4,620</u>
Net Book Value							
At 30-6-2002	<u>10,281</u>	<u>12,819</u>	<u>617</u>	<u>2,329</u>	<u>1,220</u>	<u>5,211</u>	<u>32,477</u>
Net Book Value							
At 30-6-2001	<u>10,400</u>	<u>13,243</u>	<u>620</u>	<u>2,341</u>	<u>1,245</u>	<u>5,307</u>	<u>33,156</u>
Depreciation charge for the year ended 30-6-2001							
	<u>-</u>	<u>320</u>	<u>9</u>	<u>32</u>	<u>20</u>	<u>75</u>	<u>456</u>

13. DEPOSITS FROM CUSTOMERS

Types	2002 RM'000	2001 RM'000
Fixed/Investment deposits	13,127,662	12,587,068
Negotiable instruments of deposits	710,000	353,000
	-----	-----
	13,837,662	12,940,068
Savings deposits	1,012,634	988,528
	-----	-----
	14,850,296	13,928,596
	=====	=====

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

	2002 RM'000	2001 RM'000
Due within six months	10,739,165	9,123,574
Six months to one year	2,862,149	2,910,634
One year to three years	234,804	904,766
Three years to five years	1,544	1,094
	-----	-----
	13,837,662	12,940,068
	=====	=====

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

	2002 RM'000	2001 RM'000
Business enterprises	2,018,617	1,489,447
Individuals	8,805,680	8,475,116
Others	4,025,999	3,964,033
	-----	-----
	14,850,296	13,928,596
	=====	=====

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2002	2001
	RM'000	RM'000
Licensed banks	132,500	70,700
Licensed financial institutions	34,080	145,000
Other financial institutions	145,000	145,000
	-----	-----
	311,580	360,700
	=====	=====

15. OTHER LIABILITIES

	2002	2001
	RM'000	RM'000
Agents' rebates	197	203
Taxation	81,361	144,579
Zakat (Note 36(8))	7	7
Provision for staff retirement benefits	4,388	4,624
Provision for damages (Note (i))	4,800	3,600
Other liabilities	275,148	208,164
	-----	-----
	365,901	361,177
	=====	=====

(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 RM1,200,000 (2001: RM1,200,000) during the year and an accumulated provision of RM4,800,000 (2001: RM3,600,000) against this liability.

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

16. SHARE CAPITAL

	2002	2001
	RM'000	RM'000
Ordinary shares of RM1.00 each		
Authorised capital	600,000	600,000
Issued and fully paid capital:-		
Balance as at 1 July	600,000	263,000
Issued during the year	-	337,000
Balance as at 30 June	600,000	600,000

17. RESERVES

	2002	2001
	RM'000	RM'000
Statutory reserve		
Balance as at 1 July	298,846	188,666
Transfer from income statement	144,314	110,180
Balance as at 30 June	443,160	298,846
Retained profits	320,712	282,958
Total reserve	763,872	581,804

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 RM1,068,450 available for future distribution as tax exempt dividend; and
- (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 2002.

COMPANY NUMBER 7797-V**18. INTEREST INCOME**

	2002 RM'000	2001 RM'000
Loans and advances	1,069,940	889,803
Money at call and deposit placements with financial institutions	79,865	99,491
Dealing securities	22,557	14,748
Investment securities	8,787	20,994
Others	22,965	16,968
	-----	-----
	1,204,114	1,042,004
Amortisation of premium less accretion of discounts	8,611	9,615
Net interest suspended	(98,299)	(72,316)
	-----	-----
	1,114,426	979,303
	=====	=====

19. INTEREST EXPENSES

	2002 RM'000	2001 RM'000
Deposits and placements of banks and other financial institutions	40,063	40,896
Deposits from other customers	447,669	403,411
Others	20,699	20,221
	-----	-----
	508,431	464,528
	=====	=====

20. LOAN AND FINANCING LOSS AND PROVISION

	2002 RM'000	2001 RM'000
Provision for bad and doubtful debts and financing:-		
- specific provision (net)	159,506	108,108
- general provision	-	-
	-----	-----
	159,506	108,108
Bad debts and financing:		
- written off	2,413	2,609
- recovered	(9,683)	(6,398)
	-----	-----
	152,236	104,319
Provision on amounts recoverable from Danaharta:		
- provision for value impairment during the year	12,695	9,715
	-----	-----
	164,931	114,034
	=====	=====

21. NON-INTEREST INCOME

	2002	2001
	RM'000	RM'000
Fee income:		
Commission	3,907	5,642
Service charges and fees	12,293	4,466
Other fee income	3,123	31
	-----	-----
	19,323	10,139
	-----	-----
Investment income:		
Net profit from dealing securities	36,820	22,313
(Loss)/Gain from sale of investment securities	(13,061)	464
Gross dividends from		
- Investment securities	3,921	2,863
- Subsidiary company	-	1,000
Writeback/(Provision) of provision for diminution in value of investment securities	16,021	(11,273)
	-----	-----
	43,701	15,367
	-----	-----
Other income		
Rental income	34	70
Gain on disposal of property, plant and equipment	553	448
Other non-operating income	2,114	1,172
	-----	-----
	2,701	1,690
	-----	-----
	65,725	27,196
	=====	=====

22. OVERHEAD EXPENSES

	2002	2001
	RM'000	RM'000
Personnel costs	99,099	72,568
Establishment costs	39,787	32,597
Marketing expenses	51,207	33,678
Administration and general expenses	13,998	9,230
	-----	-----
	204,091	148,073
	=====	=====

The number of employees of the Company (excluding directors) at the end of the year was 2,255 (2001: 2,236).

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The above expenditure includes the following statutory disclosures:-

	2002	2001
	RM'000	RM'000
Directors' remuneration (Note 24)	980	928
Rental of premises	12,142	10,140
Auditors' remuneration	93	93
Depreciation of property, plant and equipment	11,578	9,489
Dealers' commission	45,420	28,862
Staff retirement benefits	1,028	844
Property, plant and equipment written off	398	812
	=====	=====

23. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**(a) Related parties and relationship**

The related parties of and their relationship with the Company are as follows:

<u>Related parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
Hong Leong Credit Berhad	Penultimate holding company
Hong Leong Bank Berhad	Holding company
Subsidiary and associated companies of Hong Leong Credit Berhad as disclosed in its financial statements	Subsidiary and associated companies of penultimate holding company
Subsidiary companies of Hong Leong Bank Berhad as disclosed in its financial statements	Subsidiary companies of holding company
Subsidiary companies of the Company as disclosed in Note 11	Subsidiary companies
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary companies of ultimate holding company
Hume Industries (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary companies of ultimate holding company

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(a) Related parties transactions and balances

In the normal course of business, the Company undertakes, at agreed terms and prices on arms length basis, various transactions with its related companies. The significant related transactions undertaken by the Company during the year are set out below:-

	<u>Parent Company</u> RM'000	<u>Subsidiary Companies</u> RM'000	<u>Other related Companies</u> RM'000
2002			
Income			
Rental	-	-	24
Commission on Group products/services sold	-	-	2,418
	-----	-----	-----
	-	-	2,442
	=====	=====	=====
Expenditure			
Rental and maintenance	-	-	4,082
Interest on fixed deposit	-	40	1,721
Internet service fees	-	-	183
Other Miscellaneous Expenses	336	-	1,371
	-----	-----	-----
	336	40	7,357
	=====	=====	=====
Amount due to			
Fixed deposits	-	1,356	50,718
Leasing facility	-	-	453
	-----	-----	-----
	-	1,356	51,171
	=====	=====	=====
2001			
Income			
Rental	-	-	44
Commission on Group products/services sold	-	-	5,709
	-----	-----	-----
	-	-	5,753
	=====	=====	=====

	<u>Parent Company</u> RM'000	<u>Subsidiary Companies</u> RM'000	<u>Other related Companies</u> RM'000
Expenditure			
Rental	-	15	4,010
Interest on fixed deposit	-	83	3,815
Internet service fees	-	-	106
	-----	-----	-----
	-	98	7,931
	=====	=====	=====
Amount due from			
Short term advances	19,972	-	-
	=====	=====	=====
Amount due to			
Fixed deposits	-	2,294	104,540
	=====	=====	=====

Transactions with other related parties are aggregated because these transactions are similar in nature and no single transaction with these parties is significant enough to warrant separate disclosure.

24. DIRECTORS' REMUNERATION

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

	2002 RM'000	2001 RM'000
Executive Directors		
- Salary and other remuneration	471	457
- Bonuses	181	162
- Benefits-in-kind	28	24
Non-Executive Directors		
- Fees	300	285
	-----	-----
	980	928
	=====	=====

The remuneration attributable to the COO of the Company, including benefits-in-kind during the year amounted to RM630,470 (2001: RM593,270).

COMPANY NUMBER 7797-V**25. TAXATION**

	2002	2001
	RM'000	RM'000
Malaysian income tax	130,928	117,680
Overprovision in previous years	(15,908)	-
	-----	-----
	<u>115,020</u>	<u>117,680</u>
	=====	=====

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

Subject to agreement with the Inland Revenue Board, the Company has potential deferred tax benefits not recognised in the financial statements in respect of the followings:-

	2002	2001
	RM'000	RM'000
Leasing	(4,034)	(11,597)
Excess of capital allowance over depreciation	4,040	4,585
Interest in suspense	(27,512)	(20,248)
Others	199	3,046
	-----	-----
	<u>(27,307)</u>	<u>(24,214)</u>
	=====	=====

26. EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the Company's profit after taxation and zakat of RM288,628,000 (2001: RM220,358,000), and on the actual number of 600,000,000 (2001: 402,416,438) ordinary shares of RM1.00 each in issue during the financial year.

27. DIVIDENDS

	2002	2001
	RM'000	RM'000
Interim dividends of 7.5% (2001:3.5%) less tax	32,400	15,120
Final dividends of		
- 13% (2001: 20%) less tax	56,160	37,872
- 3% (2001: Nil) tax exempt	18,000	-
	-----	-----
	<u>106,560</u>	<u>52,992</u>
	=====	=====

At the forthcoming Annual General Meeting on 22 October 2002, a final gross dividend in respect of the financial year ended 30 June 2002 of 19.5 sen per share, less tax, amounting to RM84,240,000 will be proposed for shareholder's approval. The financial statements do not reflect this proposed final dividend which will be reflected in the financial statements for the financial year ending 30 June 2003 when approval by the shareholder. This represents a change in accounting treatment from that of prior years as explained in Note 33.

28. 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: -

	2002		2001	
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000
Direct credit substitutes	4,675	4,675	1,789	1,789
Interest rates related contracts				
- forward and future contracts			-	-
- interest rate swaps	1,294,000	17,615	654,000	9,958
Irrevocable commitment to extend credits:-				
- within one year	447,008	-	477,647	-
- exceeding one year	756,954	378,477	584,876	292,438
	<u>2,502,637</u>	<u>400,767</u>	<u>1,718,312</u>	<u>304,185</u>

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 2002, the amount of contracts which were not hedged and, hence, exposed to market risk was Nil. (2001: Nil).

29. CAPITAL COMMITMENTS

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

	2002 RM'000	2001 RM'000
Authorised and contracted for	12,879	7,679
Authorised but not contracted for	12,151	2,458
	<u>25,030</u>	<u>10,137</u>

30. LEASE COMMITMENTS

During the financial year, the Company entered into a finance lease with a related company, Hong Leong Leasing Sdn Bhd, to finance renovation works of branches.

The finance lease arrangements are as follow:

	RM'000
Minimum lease payments	
- not later than 1 year	259
- later than 1 year and not later than 5 years	194

	453
Future finance charges on finance leases	(33)

	420

Present value of finance lease liabilities	
- not later than 1 year	232
- later than 1 year and not later than 5 years	188

	420

31. 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.

32. CAPITAL ADEQUACY

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

	2002	2001
	RM'000	RM'000
<u>Tier-1 capital</u>		
Paid-up share capital	600,000	600,000
Reserves	763,872	581,804
	-----	-----
Total Tier-1 capital	1,363,872	1,181,804
	-----	-----
<u>Tier-II capital</u>		
General provisions for bad and doubtful debts	181,874	213,033
Less : Investment in subsidiaries	(998)	(749)
	-----	-----
	180,876	212,284
	-----	-----
Capital base	1,544,748	1,394,088
	=====	=====

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

	2002	2001
	RM'000	RM'000
0%	4,201,567	2,288,087
10%	232,341	389,113
20%	1,527,736	2,219,683
50%	1,732,502	1,861,668
100%	9,902,497	9,718,152
	-----	-----
	17,596,643	16,476,703
	=====	=====
Total risk weighted assets	11,097,529	11,131,833
	=====	=====

CAPITAL RATIOS

Core capital ratio	12.29%	10.62%
Risk-weighted capital ratio	13.92%	12.52%

33. PRIOR YEAR ADJUSTMENT

During the year, the Company changed its accounting policy with respect to the recognition of liabilities for proposed dividends in compliance with MASB 19: Events After the Balance Sheet Date. The effect is as follows:

Dividends (Note 27)

In previous years, final dividends were accrued as a liability when proposed by Directors after balance sheet date. The Company has changed this accounting policy in accordance with MASB 19, whereby dividends proposed or declared after balance sheet date are not recognised as a liability at the balance sheet date.

In addition, MASB 20 Provisions, Contingent Liabilities and Contingent Assets, defines a liability as a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. The proposed dividends which is subject to approval by shareholders do not fulfill the definition of a liability. Therefore, final dividends are now accrued as a liability after approval by shareholders at the Annual General Meeting.

This change in accounting policy has been accounted for retrospectively as follows:

	As previously reported RM'000	Effect of change in policy RM'000	As restated RM'000
At 1 July 2000			
- retained profits	187,900	37,872	225,772
	=====	=====	=====
At 30 June 2001			
- retained profits	208,798	74,160	282,958
- proposed dividends	74,160	(74,160)	-
	=====	=====	=====

34. GENERAL INFORMATION

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

The registered office of the Company is located at Level 6 , Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

This financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 17 July 2002.

35. COMPARATIVE FIGURES

Based on BNM's circular dated 31 July 2001 on accounting treatment for loans sold to Cagamas with recourse, loans sold to Cagamas with recourse will no longer be deducted from gross loans and advances. Proceeds from the sale of the loans are to be reclassified to the "liability side" of the balance sheet. Accordingly, the comparative figures have been reclassified to reflect the new accounting treatment as follows:-

	As previously reported RM'000	Reclassification RM'000	As restated RM'000
At 30 June 2001			
<u>Balance Sheet</u>			
Total net loans, advances and financing	10,443,576	466,654	10,910,230
Amount due to Cagamas	-	466,654	466,654
<u>Income statement</u>			
Interest income – loans and advances	840,980	48,823	889,803
Interest expenses – deposits and placements of banks and other financial institutions	16,603	24,293	40,896
Non interest income – other fee income	24,561	(24,530)	31
<u>Commitments and contingencies</u>			
Housing/hire purchase loans sold directly and indirectly to Cagamas	466,654	(466,654)	-
<u>Cashflow statement</u>			
<i>(Increase)/decrease in working capital</i>			
Loans, advances and financing	(4,950,237)	(51,076)	(5,001,313)
Other liabilities	(704)	51,076	50,372

**36. THE OPERATION OF ISLAMIC BANKING SCHEME
(SKIM PERBANKAN ISLAM OR “SPI”)**

HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 JUNE 2002

	Note	2002 RM'000	2001 RM'000
ASSETS			
Cash and short-term funds	1	149,374	51,432
Investment securities	2	583,295	507,485
Loans, advances and financing	3	1,437,320	1,016,993
Other assets		42,560	2,461
Statutory deposit with Bank Negara Malaysia	4	51,788	46,493
Property, plant and equipment	5	195	201
Total Assets		----- 2,264,532 =====	----- 1,625,065 =====
LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS			
Deposits from customers	6	1,786,043	1,185,178
Deposits and placements of banks and other financial institutions	7	4,080	145,000
Other liabilities	8	315,019	234,878
Total Liabilities		----- 2,105,142 -----	----- 1,565,056 -----
ISLAMIC BANKING CAPITAL FUNDS	9	159,390	60,009
Total Liabilities and Islamic Banking Capital Funds		----- 2,264,532 =====	----- 1,625,065 =====

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

COMPANY NUMBER 7797-V

THE OPERATION OF SPI

HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Note	2002 RM'000	2001 RM'000
Income	10	102,150	59,374
Loan and financing loss and provision	11	(27,704)	(8,377)
		-----	-----
Net income		74,446	50,997
Overhead expenses	12	(3,793)	(2,115)
		-----	-----
Profit before zakat and taxation		70,653	48,882
Zakat		-	-
Taxation		(26,742)	(15,663)
		-----	-----
Profit after zakat and taxation		43,911	33,219
Retained profits brought forward		50,009	16,790
		-----	-----
Retained profits carried forward		<u>93,920</u>	<u>50,009</u>

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

HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

THE OPERATION OF SPI

(1) CASH AND SHORT-TERM FUNDS

	2002	2001
	RM'000	RM'000
Cash and balances with banks and other financial institutions	22,964	18,182
Money at call and deposit placements maturing within one month	126,410	33,250
	-----	-----
	149,374	51,432
	=====	=====

(2) INVESTMENT SECURITIES

	2002	2001
	RM'000	RM'000
Money market instruments:-		
Malaysian Government investment certificates	80,000	30,000
Islamic accepted bills	503,295	477,485
	-----	-----
Total investment securities	583,295	507,485
	=====	=====

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

	2002	2001
	RM'000	RM'000
Maturing within one year	503,295	507,485
One year to three years	80,000	-
	-----	-----
	583,295	507,485
	=====	=====

COMPANY NUMBER 7797-V**(3) LOANS, ADVANCES AND FINANCING**

	2002	2001
	RM'000	RM'000
Housing financing	280,596	203,166
Islamic hire purchase	1,676,821	1,182,187
Staff financing	629	1,122
Lease financing	2,959	3,128
Block discounting	2,882	2,881
Other financing	142	176
	-----	-----
	1,964,029	1,392,660
Unearned income	(466,663)	(344,960)
	-----	-----
Gross loans, advances and financing	1,497,366	1,047,700
Provision for bad and doubtful debts and financing		
- general	(44,453)	(19,663)
- specific	(8,711)	(7,120)
Income-in-suspense	(6,882)	(3,924)
	-----	-----
Net loans, advances and financing	1,437,320	1,016,993
	=====	=====

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

	2002	2001
	RM'000	RM'000
Al-Bai Bithuman Ajil	145,641	107,189
Al-Ijarah Thumma Al-Bai'	1,345,837	934,375
Al-Ijarah	2,919	3,079
Al-Murabahah	87	176
Al-Musyarakah	2,882	2,881
	-----	-----
	1,497,366	1,047,700
	=====	=====

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

	2002	2001
	RM'000	RM'000
Maturing within one year	32,470	21,611
One year to three years	209,780	155,556
Three years to five years	538,825	441,968
Over five years	716,291	428,565
	-----	-----
	1,497,366	1,047,700
	=====	=====

COMPANY NUMBER 7797-V

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

	2002	2001
	RM'000	RM'000
Agriculture	30	126
Mining and quarrying	13	39
Manufacturing	2,126	2,564
Electricity, gas and water	117	353
Construction	1,278	2,557
Real estate	64	110
Purchase of landed property (of which		
i) Residential	104,350	60,407
ii) Non-residential)	23,734	22,545
General commerce	2,546	3,328
Transport, storage and communication	5,778	5,118
Finance, insurance and business services	4,979	7,032
Purchase of securities	16,243	20,156
Purchase of transport vehicles	1,321,253	912,306
Consumption credit	18	16
Others	14,837	11,043
	-----	-----
	<u>1,497,366</u>	<u>1,047,700</u>
	=====	=====

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

	2002	2001
	RM'000	RM'000
Balance as at 1 July	42,626	3,848
Transfer from CCM	-	24,851
Non-performing during the year (gross)	48,543	16,395
Recoveries	(3,467)	(1,224)
Reclassified as performing	(11,767)	(1,244)
Amount written off	(2,380)	-
	-----	-----
Balance as at 30 June	<u>73,555</u>	<u>42,626</u>
	=====	=====
As % of gross loans, advances and financing less specific provision and income-in-suspense	3.9%	3.0%
	=====	=====

COMPANY NUMBER 7797-V

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

	2002	2001
	RM'000	RM'000
General Provision		
Balance as at 1 July	19,663	9,455
Transfer from CCM	-	2,676
Provision made during the year	24,790	7,532
	-----	-----
Balance as at 30 June	44,453	19,663
	=====	=====
As % of gross loans, advances and financing less specific provision and income-in-suspense	3.0%	1.9%
	=====	=====
Specific Provision		
Balance as at 1 July	7,120	1,020
Transfer from CCM	-	5,271
Provision made during the year	8,653	1,476
Amount written back in respect of recoveries	(5,739)	(632)
Amount written off	(1,323)	(15)
	-----	-----
Balance as at 30 June	8,711	7,120
	=====	=====
Income-in-suspense		
Balance as at 1 July	3,924	532
Transfer from CCM	-	1,970
Provision made during the year	8,294	1,840
Amount written back in respect of recoveries	(4,279)	(415)
Amount written off	(1,057)	(3)
	-----	-----
Balance as at 30 June	6,882	3,924
	=====	=====

(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
Cost				
At 1-7-2001	63	152	155	370
Additions	41	39	1	81
	-----	-----	-----	-----
At 30-6-2002	104	191	156	451
	=====	=====	=====	=====
Accumulated Depreciation				
At 1-7-2001	18	97	54	169
Charge for the year	24	48	15	87
	-----	-----	-----	-----
At 30-6-2002	42	145	69	256
	=====	=====	=====	=====
Net Book Value				
At 30-6-2002	62	46	87	195
	=====	=====	=====	=====
Net Book Value				
At 30-6-2001	45	55	101	201
	=====	=====	=====	=====
Depreciation charge for year ended 30-6-2001				
	6	32	16	54
	=====	=====	=====	=====

(6) **DEPOSITS FROM CUSTOMERS**

	2002 RM'000	2001 RM'000
Types		
General Investment deposits	1,615,364	1,027,742
Savings deposits	170,679	157,436
	-----	-----
Total deposits	1,786,043	1,185,178
	=====	=====

COMPANY NUMBER 7797-V

(a)	The maturity structure of investment deposits are as follows:-		
		2002	2001
		RM'000	RM'000
	Due within six months	1,465,950	963,617
	Six months to one year	126,490	61,589
	One year to three years	22,485	2,279
	Three years to five years	439	257
		-----	-----
		1,615,364	1,027,742
		=====	=====
(b)	The deposits are sourced from the following customers:-		
		2002	2001
		RM'000	RM'000
	Business enterprises	408,386	165,338
	Individuals	335,890	273,399
	Others	1,041,767	746,441
		-----	-----
		1,786,043	1,185,178
		=====	=====
(7)	DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS		
		2002	2001
		RM'000	RM'000
	Licensed financial institutions	4,080	145,000
		=====	=====
(8)	OTHER LIABILITIES		
		2002	2001
		RM'000	RM'000
	Taxation	26,742	20,898
	Zakat	7	7
	Other liabilities	288,270	213,973
		-----	-----
		315,019	234,878
		=====	=====

(9) ISLAMIC BANKING CAPITAL FUNDS (IBCF)

	2002	2001
	RM'000	RM'000
Funds allocated from Head Office	65,470	10,000
Retained profits	93,920	50,009
	-----	-----
	159,390	60,009
	=====	=====

(10) INCOME FROM SPI OPERATION

	2002	2001
	RM'000	RM'000
Income derived from investment of depositors fund	151,738	89,066
Income attributable to depositors:-		
Other customers	(51,067)	(30,382)
	-----	-----
Income attributable to Company	100,671	58,684
Other SPI Income	1,479	690
	-----	-----
	102,150	59,374
	=====	=====

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

	Depositors'	IBF
	Funds	RM'000
	RM'000	RM'000
2002		
Income from financing	122,108	10,669
Investment income:		
Income from dealing/investment securities	17,224	1,737
	-----	-----
	139,332	12,406
Other income:		
Other non-operating income	1,343	136
	-----	-----
	140,675	12,542
	=====	=====

	Depositors' Funds RM'000	IBF RM'000
2001		
Income from financing	76,193	3,437
Investment income		
Income from dealing/investment securities	9,025	407
Gain from sale of investment securities	4	-
	-----	-----
	85,222	3,844
Other income		
Other non-operating income	660	30
	-----	-----
	85,882	3,874
	=====	=====
(11) LOAN AND FINANCING LOSS AND PROVISION		
	2002	2001
	RM'000	RM'000
Provision for bad and doubtful debts and financing:-		
- specific provision (net)	2,914	844
- general provision	24,790	7,532
- bad debts written off	-	1
	-----	-----
	27,704	8,377
	=====	=====
(12) OVERHEAD EXPENSES		
	2002	2001
	RM'000	RM'000
Personnel costs	647	779
Establishment costs	200	232
Marketing expenses	3,345	1,397
Administration and general expenses	(399)	(293)
	-----	-----
	3,793	2,115
	=====	=====

(13) CAPITAL ADEQUACY

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

	2002	2001
	RM'000	RM'000
<u>Tier I Capital</u>		
Islamic Banking Fund	65,470	10,000
Retained profits	93,920	50,009
	-----	-----
	159,390	60,009
	=====	=====
<u>Tier- II Capital</u>		
General allowance for bad and doubtful debts	44,453	19,663
	-----	-----
Total Tier II	44,453	19,663
	-----	-----
Capital base	203,843	79,672
	=====	=====

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

	2002	
	Principal	Risk-Weighted
	RM'000	RM'000
0%	216,155	-
10%	-	-
20%	568,301	113,660
50%	145,641	72,821
100%	1,380,876	1,380,876
	-----	-----
	2,310,973	1,567,357
	=====	=====

CAPITAL ADEQUACY RATIOS

Core Capital ratio	10.17%
Risk-Weighted Capital ratio	13.01%

HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169(15) OF THE COMPANIES ACT 1965**

We, Lee Kam Chuen and YBhg Dato' James Lim Cheng Poh, being two of the Directors of HONG LEONG FINANCE BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 7 to 49 are drawn up in compliance with applicable approved accounting standards in Malaysia and so as to give a true and fair view of the state of affairs of the Company as at 30 June 2002 and of the results and the cash flows of the Company for the year ended on that date.

On behalf of the Board of Directors

.....)
Lee Kam Chuen)
)
)
)
) Directors
)
)
)
)
.....)
YBhg Dato' James Lim Cheng Poh

Kuala Lumpur

15 August 2002

COMPANY NUMBER 7797-V

HONG LEONG FINANCE BERHAD
(Incorporated in Malaysia)

**STATUTORY DECLARATION PURSUANT TO
SECTION 169(16) OF THE COMPANIES ACT 1965**

I, Lee Kam Chuen, being the Director primarily responsible for the financial management of HONG LEONG FINANCE BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 7 to 49 are to the best of my knowledge and belief correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared)
)
by the abovenamed Lee Kam Chuen)
)
at Kuala Lumpur in Wilayah Persekutuan)
)
on 15 August 2002)

Before me
Commissioner for Oaths

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

We have audited the financial statements set out on pages 7 to 49 of HONG LEONG FINANCE BERHAD. The preparation of the financial statements is 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 2002 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

COMPANY NUMBER 7797-V

- (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
CHARTERED ACCOUNTANTS**

**LING KAM HOONG
161/5/04 (J/PH)**

Kuala Lumpur

15 August 2002
