

*Strictly Private & Confidential*



## INFORMATION MEMORANDUM IN RELATION TO THE

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**Proposed Master Debt Issuance Programme of up to RM1,800,000,000  
(Ringgit Malaysia One Billion and Eight Hundred Million) in Nominal  
Value comprising a Commercial Papers Programme and a Medium  
Term Notes Programme**

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Principal Adviser / Lead Arranger



**Hong Leong Investment Bank Berhad (43526-P)**

Joint Lead Managers



**CIMB Investment Bank  
Berhad (18417-M)**



**Hong Leong Investment  
Bank Berhad (43526-P)**



**Maybank Investment Bank  
Berhad (15938-H)**

7 October 2011

## **IMPORTANT NOTICE**

This Information Memorandum has been approved by the directors of Hong Leong Financial Group Berhad (“**HLFG**” or “**Issuer**”) and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries, and to the best of their information and belief, there are no false or misleading statements or other material facts the omission of which would make any statement in this Information Memorandum false or misleading and there is no material omission in this Information Memorandum.

Hong Leong Investment Bank Berhad (“**HLIB**”) (“**Lead Arranger**” or “**Principal Adviser**”) have been mandated by HLFG to act as lead arranger and principal adviser, in connection with the proposed master debt issuance programme of up to RM1,800 million in nominal value (“**Master Programme**”) comprising (i) a seven (7) years Commercial Papers (“**CPs**”) Programme (“**CP Programme**”) of up to RM1,800 million in nominal value and (ii) a twenty (20) years Medium Term Notes (“**MTNs**”) Programme of up to RM1,800 million in nominal value (“**MTN Programme**”) (collectively, CPs and MTNs are referred to as “**Notes**”). The combined limit of the CP Programme and the MTN Programme shall not exceed RM1.8 billion in nominal value. HLIB, CIMB Investment Bank Berhad and Maybank Investment Bank Berhad (collectively, the “**Joint Lead Managers**”) have been mandated by HLFG to act as joint lead managers, in connection with the Master Programme.

**THE ISSUANCE OF THE MASTER PROGRAMME HAS BEEN APPROVED BY THE SECURITIES COMMISSION VIDE ITS LETTER TO HLIB DATED 29 JULY 2011. THE APPROVAL OF THE SECURITIES COMMISSION SHALL NOT BE TAKEN TO INDICATE THAT THE SECURITIES COMMISSION RECOMMENDS THE MASTER PROGRAMME.**

**A COPY OF THIS INFORMATION MEMORANDUM WILL BE DEPOSITED WITH THE SECURITIES COMMISSION WHO TAKES NO RESPONSIBILITY FOR ITS CONTENTS.**

**THE SECURITIES COMMISSION SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE ISSUER AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THE INFORMATION MEMORANDUM. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, REFER TO SECTION 3.0 ON “INVESTMENT CONSIDERATIONS”.**

**IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR OWN FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING FOR THE NOTES TO BE ISSUED UNDER THE MASTER PROGRAMME.**

## Purpose

The Issuer has issued this Information Memorandum, which is being provided on a confidential basis to potential investors, who fall within one or more of the categories of persons or in the circumstances falling within the categories set out in Schedules 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 9 (or Section 257(3)) of the Capital Markets and Services Act 2007 (as amended from time to time) (“**CMSA**”) at issuance and thereafter Schedules 6 (or Section 229(1)(b)) and Schedule 9 (or Section 257(3)) of the CMSA, where applicable and are subject to certain restrictions on resale as described under the ‘Selling Restriction’ clause as referred to in this Information Memorandum, for the sole purpose of assisting the said potential investors to decide whether to subscribe or purchase the Notes under the Master Programme. This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer or as required under Malaysian laws, regulations or guidelines.

Neither the Lead Arranger nor the Joint Lead Managers has/have independently verified the information contained in this Information Memorandum and does not make any representation or warranty, express or implied, nor accepts any responsibility, with respect to the authenticity, origin, validity, accuracy or completeness of any of the information or data contained in this Information Memorandum or that information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum. The Lead Arranger and the Joint Lead Managers has/have not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the Master Programme and shall not be liable for any consequences of reliance on any of the information or data in this Information Memorandum.

No person is authorised to give any information or date or to make any representation not contained in this Information Memorandum and any information or representation not contained in this Information Memorandum must not be relied upon as having been authorised by or on behalf of the Issuer, the Lead Arranger, the Joint Lead Managers or any other person. The delivery of this Information Memorandum at any time does not imply that the information contained in this Information Memorandum is correct at any time subsequent to its date.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction outside Malaysia (“**Foreign Jurisdiction**”), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an offer of, or an invitation to subscribe for or purchase the Notes, or any other securities of any kind by any party in any Foreign Jurisdiction.

The distribution or possession of this Information Memorandum in or from certain Foreign Jurisdictions may be restricted or prohibited by law. Each recipient is required by the Issuer, the Lead Arranger and the Joint Lead Managers to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer, the Lead Arranger nor the Joint Lead Managers accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in or from any Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that: (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to subscribe for, purchase or in any other way to receive the Notes under all jurisdictions to which the recipient is subject, (c) the recipient will comply with all the applicable laws in

connection with such subscription, purchase or acceptance of the Notes, (d) the Issuer, the Lead Arranger, the Joint Lead Managers and all other parties involved in the preparation of this Information Memorandum and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription, purchase or acceptance of the Notes and they shall not have any responsibility or liability in the event that such subscription or acceptance of the Notes are or shall become unlawful, unenforceable, voidable or void, (e) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Notes and is able and prepared to bear the economic and financial risks of investing in or holding the Notes and (f) it is subscribing or accepting the Notes for its own account, and (g) it falls within one or more of the categories of persons specified under Schedules 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 9 (or Section 257(3)) of the CMSA at issuance and Schedules 6 (or Section 229(1)(b)) and Schedule 9 (or Section 257(3)) of the CMSA thereafter. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject to.

This Information Memorandum is not, and should not be construed as, a recommendation by the Issuer, the Lead Arranger, the Joint Lead Managers or any other party to participate in the Master Programme. Further, neither the Issuer, the Lead Arranger, the Joint Lead Managers nor any of their respective employees or agents makes or gives or purports to make or give any representation or warranty, expressed or implied, as to the merits of the Master Programme, or the purchase or acquisition thereof, the creditworthiness or financial condition or otherwise of the Issuer or any other person mentioned in this Information Memorandum. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the Master Programme and all other relevant matters, including but not limited to the information and data set out in this Information Memorandum, and each recipient should consult its own professional advisers.

This Information Memorandum includes certain historical information, estimates or reports thereon derived from sources prepared by the Issuer and other publicly available information with respect to the Malaysian economy and certain other matters. Such information, estimates, and projections or reports have been included solely for illustrative purposes. No representation or warranty is made by the Issuer or its advisers as to the accuracy or completeness of any information, estimate and projection or report thereon derived from such and other third party sources and nothing contained herein shall be relied upon as a promise or representation by the Issuer or its advisers as to the past or the future.

All statements contained in this Information Memorandum that are not statements of historical facts constitute ‘forward looking statements’. These statements include, among other things, discussion of the Issuer, Hong Leong Assurance Berhad (“**HLA**”), Hong Leong Bank Berhad (“**HLB**”) and Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) (“**HLCB**”) and their business strategies and expectation concerning their position in the Malaysian economy, future operations, profitability, liquidity, capital resources, financial position and settlement of indebtedness. All these statements are based on estimates and assumptions made by the Issuer, HLA, HLB and HLCB that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the Issuer, HLA, HLB and HLCB to be materially different from that expected or indicated by such statements and estimates, and no assurance is given that any of such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Information Memorandum is not a representation or warranty by the Issuer or any other person that the plans and objectives of the Issuer, HLA, HLB and HLCB will be achieved.

All discrepancies in the tables included in this Information Memorandum between the amounts stated therein and totals thereof are due to rounding, and certain numbers appearing in this Information Memorandum are shown after rounding.

The issue, offer or invitation in relation to the Notes in this Information Memorandum or otherwise are subject to the fulfilment of various conditions precedent including but not limited to the approval from the Securities Commission, which was obtained via its letter dated 29 July 2011 and each recipient of this Information Memorandum acknowledges and agrees that the approval of the Securities Commission shall not be taken to indicate that the Securities Commission recommends the subscription or purchase of the Notes.

This Information Memorandum is not a prospectus and is not intended to be a prospectus. However, a copy of the this Information Memorandum will be lodged and deposited with the Securities Commission, pursuant to Sections 229 and 230 of the Capital Markets and Services Act 2007.

Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof.

#### **Documents Incorporated by Reference**

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

- (i) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published interim consolidated and non-consolidated financial statements (if any) of the Issuer; and
- (ii) all supplements or amendments to this Information Memorandum circulated by the Issuer, if any, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

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Appendix 1 – Audited Financial Statements of the Issuer for the FYE 30 June 2010

Appendix 2 – Audited Financial Statements of the Issuer for the FYE 30 June 2011

Appendix 3 – Final Rating Letter from MARC dated 22 September 2011

## **GLOSSARY OF DEFINITIONS AND ABBREVIATIONS**

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“Act”	The Companies Act, 1965 as amended from time to time and any re-enactment thereof
“BAFIA”	Banking and Financial Institutions Act, 1989 as amended from time to time and any re-enactment thereof
“Board”	The Board of Directors of HLFG
“BNM”	Bank Negara Malaysia, a body corporate established under the Central Bank of Malaysia Act, 1958
“Bursa Securities”	Bursa Malaysia Securities Berhad (635998-W)
“EON Bank Group”	EON Bank Berhad (now known as Promino Sdn Bhd) and its former subsidiaries which were acquired by HLB on 6 May 2011
“CPs”	Commercial papers issued under the Master Programme
“CMSA”	Capital Markets and Services Act, 2007 as amended from time to time and any re-enactment thereof;
“Existing CP/MTN Programme”	The Issuer's existing 7-year commercial papers and medium term notes issuance programme with an aggregate nominal amount of up to RM800.0 million
“FAST”	Fully Automated System for Issuing and Tendering
“FYE”	Financial year ending/ended
“HLA”	Hong Leong Assurance Berhad (94613-X)
“HLB”	Hong Leong Bank Berhad (97141-X)
“HLB Group”	HLB and its subsidiaries, collectively;
“HLFG” or “Issuer”	Hong Leong Financial Group Berhad (8024-W)
“HLFG Group”	HLFG and its subsidiaries, collectively
“HLIB” or “Principal Adviser/Lead Arranger”	Hong Leong Investment Bank Berhad (43526-P)
“MARC” or “Rating Agency”	Malaysian Rating Corporation Berhad (364803-V)
“MTNs”	Medium term notes issued under the Master Programme
“Notes”	Collectively, the CPs and MTNs issued under the Master



	Programme
“Noteholders”	Holders of the Notes issued under the Master Programme
“PDS”	Private Debt Securities
“Proposal” or “Master Programme”:	Proposed issuance of a master debt issuance programme of up to RM1,800 million in nominal value comprising: <ul style="list-style-type: none"> <li>(i) a seven (7) years commercial papers programme (“<b>CP Programme</b>”); and</li> <li>(ii) a twenty (20) years medium term notes programme (“<b>MTN Programme</b>”).</li> </ul>
“RENTAS”	Real Time Electronic Transfer of Funds and Securities System
“RM” and “sen”	Ringgit Malaysia and sen respectively
“SC”	The Securities Commission Malaysia, a body corporate established under the SCA
“SCA”	Securities Commission Act, 1993 as amended from time to time and any re-enactment thereof

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## **Section 1.0 EXECUTIVE SUMMARY**

### **1.1 INTRODUCTION**

HLFG was incorporated in Malaysia under the Act on 6 September 1968 as a private limited company under the name of Office Products Sdn Berhad. It subsequently changed its name to Sovran Industries Sdn Berhad on 17 June 1969 and was converted to a public company under the name of Sovran Industries Berhad on 29 July 1969. It was admitted to the Official List of the Kuala Lumpur Stock Exchange (now known as Bursa Securities) on 27 November 1969. On 14 May 1980, its name was changed to Hong Leong Credit Berhad. It assumed its present name on 27 July 2006.

The principal activities of HLFG are those of investment holding and provision of services to its subsidiaries to enhance group value. HLFG Group is a diversified financial group whose businesses provide a broad range of financial products and services to consumer, corporate and institutional customers. The principal activities of the significant subsidiaries consist of commercial banking business, Islamic banking services, insurance and takaful business, investment banking, futures and stockbroking and asset management business.

### **1.2 THE ISSUE**

The Proposal consists of two separate programmes;

- (i) the CP Programme; and
- (ii) the MTN Programme;

which together form the Master Programme.

At any point in time, the aggregate outstanding balance of the Notes shall not exceed RM1,800 million in nominal value, being the maximum amount allowed under the Master Programme.

#### **CP PROGRAMME**

The CP Programme will have an issue size of up to RM1,800 million in nominal value provided that the total aggregate nominal value of the Notes shall not exceed RM1,800 million.

The CP Programme shall have a tenure of seven (7) years from the date of first issuance of the CPs which shall be made within two (2) years from the date of SC's approval.

The tenure of the CPs to be issued shall be one (1) month, two (2), three (3), six (6), nine (9) or twelve (12) months as may be determined by the Issuer and the Facility Agent provided always that the maturity of the CPs shall not exceed the remaining tenure of the CP Programme.

The CPs will not be listed or quoted on Bursa Securities or any other stock exchange.

The CPs shall constitute a direct, unconditional and unsecured obligations of HLFG ranking pari-passu without preference or priority among themselves and at least pari-passu with all other present and future unsecured obligation of HLFG, save and except for those obligation preferred by law.

## MTN PROGRAMME

The MTN Programme will have an issue size of up to RM1,800 million in nominal value provided that the total aggregate nominal value of the Notes shall not exceed RM1,800 million.

The MTN Programme shall have a tenure of twenty (20) years from the date of first issuance of the MTNs which shall be made within two (2) years from the date of SC's approval.

The tenure of the MTNs to be issued shall be more than one (1) year as may be determined by the Issuer and the Facility Agent provided always that the maturity of the MTNs shall not exceed the remaining tenure of the MTN Programme.

The MTNs will not be listed or quoted on Bursa Securities or any other stock exchange.

The MTNs shall constitute a direct, unconditional and unsecured obligations of HLFG ranking pari-passu without preference or priority among themselves and at least pari-passu with all other present and future unsecured obligation of HLFG, save and except for those obligation preferred by law.

### **1.3 SUMMARY OF KEY FINANCIAL DATA OF HLFG FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010 AND 30 JUNE 2011**

In accordance with the audited accounts for the financial years ended 30 June 2010 and 30 June 2011, a summary of the key financial data of HLFG are as follows:

	<b>Financial year ended 30 June 2010</b>		<b>Financial year ended 30 June 2011</b>	
	<b>The HLFG Group</b>	<b>HLFG</b>	<b>The HLFG Group</b>	<b>HLFG</b>
	RM mil	RM mil	RM mil	RM mil
Net Income	2,458.6	216.3	3,656.3	1,169.6
Profit/(loss) before tax	1,450.8	200.2	2,419.3	1,136.8
Profit/(loss) after tax	1,206.4	149.8	2,069.3	1,083.5
Profit/(loss) after tax and minorities	860.8	149.8	1,671.9	1,083.5
Total assets employed	94,220.6	2,609.3	156,185.6	4,918.3
Debts	1,392.7	720.3	7,871.8	2,194.2
Equity	7,517.1	1,883.8	10,260.0	2,709.7
Net tangible assets/ (net liabilities)	6,888.3	1,883.7	8,453.7	2,709.7
DE Ratio (times)	0.19	0.38	0.77	0.81

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## **SECTION 2.0 THE MASTER PROGRAMME**

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### **2.1 PRINCIPAL TERMS AND CONDITIONS**

The information set out in this section is qualified in its entirety by, and must be read in conjunction with the further detailed information appearing elsewhere in this Information Memorandum.

As the principal terms and conditions have been extracted from the submission of the Proposal to the SC (which was approved by the SC on 29 July 2011), definitions of terms used in this Section 2.1 may not be similar from the glossary of definitions and abbreviations aforesated. Unless otherwise defined herein, capitalized words shall have the same meaning as those set out in the glossary.

(a) Names of the parties involved in the proposed transaction (where applicable)

- |        |   |   |
|--------|---|---|
| (i)    | Principal<br>Adviser(s)/Lead<br>Arranger(s)                             | : Hong Leong Investment Bank Berhad (Company No. 43526-P)<br>("HLIB" or "LA")   |
| (ii)   | Arranger(s)   | : Not applicable  |
| (iii)  | Valuers   | : Not applicable  |
| (iv)   | Solicitors  | : Zul Rafique & partners  |
| (v)    | Financial Adviser   | : Not applicable  |
| (vi)   | Technical Adviser   | : Not applicable  |
| (vii)  | Guarantor   | : Not applicable  |
| (viii) | Trustee   | : Malaysian Trustees Berhad (Company No. 21666-V)   |
| (ix)   | Facility Agent  | : HLIB  |
| (x)    | Primary<br>Subscriber(s) and<br>amount subscribed<br>(where applicable) | : To be determined prior to the issuance in respect of issuance via<br>bought deal basis.<br><br>Not applicable for issuance via private placement. |
| (xi)   | Underwriter(s) and<br>amount underwritten                               | : Not applicable  |
| (xii)  | Central Depository  | : BNM   |
| (xiii) | Paying Agent  | : BNM   |
| (xiv)  | Reporting<br>Accountant   | : Not applicable  |

- (xv) Others (please specify)
- (1) Joint Lead Manager(s) and/or Bookrunner(s) : HLIB and/or such other party(ies) to be invited by HLIB and agreed by the Issuer.
- (2) Tender Panel Members (“TPMs”) : Financial institutions licensed under BAFIA, insurance companies licensed under the Insurance Act, 1996, approved corporations and such other persons falling within the categories of persons or in the circumstances as stated in paragraph 2(p) (Selling Restrictions). The composition of the tender panel may be varied from time to time by the Lead Arranger subject to agreement of the Issuer.
- (3) Issue Agent : HLIB.
- (4) Placees/ Subscribers : To be determined prior to the issuance in respect of issuance via direct placement basis and/or book running basis.
- (b) Facility description : The Issuer intends to issue commercial papers and medium term notes pursuant to:
- a) Seven (7) years Commercial Papers (“CPs”) Programme (“CP Programme”); and
- b) Twenty (20) years Medium Term Notes (“MTNs”) programme (“MTN Programme”).
- Provided that the combined limit of the CP Programme and the MTN Programme shall not exceed RM1.8 billion in nominal value (“**Master Limit**”). The CPs and the MTNs shall collectively, be referred to as “**the Notes**”. The CP Programme and the MTN Programme shall collectively, be referred to as “**the Master Programme**”.
- (c) Issue size (RM) : CP Programme  
The CP Programme shall have an issue size of up to RM1.8 billion in nominal value.
- MTN Programme  
The MTN Programme shall have an issue size of up to RM1.8 billion in nominal value.
- The total outstanding nominal value of the CPs and MTNs shall not exceed the Master Limit at any point in time.

- (d) Issue price (RM) : The CPs shall be issued at a discount.
- The MTNs shall be issued at premium, par or at a discount.
- The issue price shall be determined prior to the issue date.
- (e) Tenure of the facility/issue : Tenure of the CP Programme
- The CP Programme shall have a tenure of seven (7) years from the date of first issuance of the CPs which shall be made within two (2) years from the date of SC's approval.
- Tenure of the MTN Programme
- The MTN Programme shall have a tenure of twenty (20) years from the date of first issuance of the MTNs which shall be made within two (2) years from the date of SC's approval.
- Tenure of CPs
- The tenure of the CPs to be issued shall be one (1) month, two (2), three (3), six (6), nine (9) or twelve (12) months as may be determined by the Issuer and the Facility Agent provided always that the maturity of the CPs shall not exceed the remaining tenure of the CP Programme.
- Tenure of MTNs
- The tenure of the MTNs to be issued shall be more than one (1) year as may be determined by the Issuer and the Facility Agent provided always that the maturity of the MTNs shall not exceed the remaining tenure of the MTN Programme.
- (f) Coupon (%) : CPs
- Not applicable as the CPs are issued at discount to the nominal value.
- MTNs
- The coupon rate shall be determined prior to the issue date of each issuance.
- (g) Coupon payment frequency : Payable semi-annually in arrears from the issue date, if applicable.
- (h) Coupon payment basis : Actual days/365 days, if applicable.
- (i) Yield to maturity (%) : To be determined at the point of each issuance.
- (j) Security : None.

- (k) Details on utilisation of proceeds : The proceeds shall be utilised by the Issuer as follows:

First issuance

- i) To settle the outstanding amounts under the Issuer's existing facility;<sup>(a)</sup>

Subsequent issuance

- ii) To refinance/settle (whether in whole or in part) any other financing facilities of the Issuer;  
iii) To finance any general investments and/or for working capital purposes of the HLF Group;  
iv) To refinance any CPs and/or MTNs on their respective maturity dates.

*(a) Refinancing of the Existing CP/MTN Programme*

*The Existing CP/MTN Programme which was arranged by Hong Leong Bank Berhad was first issued on 12 November 2007. The tenure of the Existing CP/MTN Programme is seven (7) years from the date of first issue and the outstanding notes (excluding the interest portion) as at 4<sup>th</sup> July 2011 is RM580.0 million.*

- (l) Sinking fund (if any) : None.

- (m) Rating : CPs  
Indicative rating MARC-1 from Malaysia Rating Corporation Berhad ("MARC").

MTNs

Indicative rating of at least AA flat from MARC.

- (n) Form and denomination : The Notes will be issued in bearer form and represented at all times by global certificates to be deposited with Central Depository (exchangeable for definitive certificates only in limited circumstances).

The Notes shall be issued in accordance with (1) the "Participation and Operation Rules for Payment and Securities Services issued by Malaysian Electronic Clearing Corporation Sdn Bhd ("MyClear") ("MyClear Rules") and (2) the "Operational Procedures for Securities Services" issued by MyClear, as amended or substituted from time to time ("MyClear Procedures"), or their replacement thereof (collectively the "MyClear Rules and Procedures").

The Notes shall be issued in the denomination of RM1,000,000 each and in multiples of RM1,000,000 thereof or such other denomination as may be mutually agreed between the Issuer and the Lead Arranger(s) or the Facility Agent.

- (o) Mode of Issue : CPs  
The Facility Agent may place out the CPs privately or invite the TPMs to tender for the CPs.
- The Issuer shall have the right to reject any or all the bids received from any TPM without assigning any reasons thereto. Acceptance of tenders and allocations to the TPM shall be made via Fully Automated System for Issuing/Tendering, provided the Issuer may accept such tenders at its sole discretion.
- MTNs  
The MTNs may be issued by way of direct placement on a best effort basis or a bought deal basis or book running on a best effort basis without prospectus.
- (p) Selling restriction : Selling Restrictions at Issuance
- The Notes shall not be offered, sold, transferred or otherwise disposed, directly or indirectly other than to persons falling within any of the categories of persons or in the circumstances specified under:
- (i) Schedule 6 (or Section 229(1)(b));
  - (ii) Schedule 7 (or Section 230(1)(b)); and
  - (iii) Schedule 9 (or Section 257(3))
- of the CMSA.
- Selling Restrictions after Issuance
- The Notes shall not be offered, sold, transferred or otherwise disposed of, directly or indirectly, other than to persons falling within any of the categories of persons or in the circumstances specified under:
- (i) Schedule 6 (or Section 229(1)(b)); and
  - (ii) Schedule 9 (or Section 257(3))
- of the CMSA.
- (q) Listing status : The Notes will not be listed or quoted on Bursa Malaysia Securities Berhad or any other stock exchange.
- (r) Minimum level of subscription (RM or %) : If the issuance is via book-building or private placement or tender, the minimum level of subscription of the Notes shall be 5% of each issuance.
- If the issuance is via bought deal, the minimum level of subscription of the Notes shall be 100% of each issuance.



- (s) Other regulatory approvals : None.  
required in relation to the  
issue, offer or invitation and  
whether or not obtained  
(please specify)
- (t) Conditions precedent : Conditions precedent to include but not limited to the following:
- (a) Receipt of certified true copy of HLFG's Memorandum and Articles of Association. Form 24, Form 49 and Board Resolution authorising:
    - (i) Acceptance of the Master Programme;
    - (ii) Officer(s) of HLFG to execute the documents relating to the Master Programme together with his/her specimen signature(s);
  - (b) Execution of all Programme Documents including but not limited to the execution of the Programme Agreement;
  - (c) Legal opinions covering Programme Documents shall have been received;
  - (d) Satisfactory due diligence by the LA and other professionals, if necessary;
  - (e) Such other conditions precedent as may be deemed necessary by the Solicitors and the LA.
- (u) Representations and Warranties : The representations and warranties shall include (but not limited to) the following:
- (a) The Issuer is a company duly incorporated and existing under Malaysian law and has the power and authority to enter into the business in which it is engaged;
  - (b) The Issuer has the power to enter into, exercise its rights under and perform its obligations under the Programme Documents;
  - (c) All necessary actions, authorisations and consents required under the Programme Documents by the Issuer have been taken, fulfilled and obtained and remain in full force and effect;
  - (d) The Issuer's entry into the Programme Documents, exercise of its rights under and performance of the Programme Documents do not and will not violate any existing law or any agreements to which it is a party.

- (e) Such other Representation and Warranties as may be advised by the Solicitors.
- (v) Events of Default
- : The events of default which shall include (but not limited) to the following and those required to comply with the SC's *Guidelines on the Minimum Contents Requirements for Trust Deeds*,:
    - (a) There is a material breach by the Issuer of any term or condition of the CP Programme Agreement and/or MTN Programme Agreement or provision of any of the Programme Documents or any of the Programme Documents cease to remain binding on any of the parties thereto or become unenforceable for any other reason, which if capable of remedy, is not remedied within sixty (60) days;
    - (b) The Issuer makes or enters into a general assignment or arrangement or composition with or for the benefit of its creditors, or a moratorium is declared on any of its indebtedness (whether pursuant to section 176 of the Companies Act 1965 ("Act") or otherwise), or any creditors' scheme of arrangement under section 176 of the Act is instituted against the Issuer;
    - (c) The Issuer is wound up, or is declared insolvent or consents to the appointment of a custodian or a receiver over the whole or a substantial part of the assets of the Issuer;
    - (d) Failure to pay any amounts due under the CP Programme Agreement and/or MTN Programme Agreement and the Programme Documents;
    - (e) Any other indebtedness for borrowed moneys of the Issuer becomes due or payable or capable of being declared due or payable prior to its stated maturity or any guarantee or similar obligations of the Issuer is not discharged at maturity or when called and such declaration of indebtedness being due or payable or such call on the guarantee or similar obligations is not discharged or disputed in good faith by the Issuer in a court of competent jurisdiction within sixty (60) days from the date of such declaration or call;
    - (f) Any winding up proceedings are instituted against the Issuer and are not withdrawn or discharged within forty five (45) days from the date of service of the winding up petition against the Issuer or a winding-up order has been made against the Issuer or a resolution to wind up the Issuer has been passed;
    - (g) All or a substantial portion of the assets, undertakings, rights or revenue of the Issuer are seized, nationalized, expropriated or compulsorily acquired by or under the

authority of any governmental body which is likely to have a Material Adverse Effect;

- (h) There is a revocation, withholding or modification of a license, authorisation or approval that will impair or prejudice the Issuer's ability to comply with the material terms and conditions of the CP Programme agreement and/or MTN Programme agreement or any other documents relating to the issue, offer or invitation in respect of the Master Programme;
- (i) Any representation or warranty which is made (or acknowledged in writing to have been made) or given by the Issuer under the Programme Documents or which is contained in any certificate, document or statement furnished at any time pursuant to the terms of the CP Programme Agreement and/or MTN Programme Agreement and/or any of its Programme Documents proves to have been incorrect or misleading in any material respect on or as of the date made or given or deemed made or given, or if repeated at any time with reference to the facts and circumstances subsisting at such time, would not be accurate in all material respects and has a Material Adverse Effect on the Master Programme;
- (j) A distress, execution, sequestration or other process is levied or enforced upon or sued out against any of the undertakings, assets, rights or revenues of the Issuer and is not discharged or disputed in good faith in a court of competent jurisdiction within thirty (30) days after being levied, enforced or sued out and Provided That such distress, execution, sequestration or other process has or will have a Material Adverse Effect on the Issuer; and
- (k) Such other events of default required to comply with the SC's Guidelines on the Minimum Contents Requirements for Trust Deeds.

Upon the occurrence of an Event of Default, and the Event of Default being capable of remedy, is not remedied within the relevant remedy period specifically provided, or if not provided, within thirty (30) days of receipt of notice to do so from the Facility Agent and/or the Trustee, the Trustee may declare the CPs and/or MTNs immediately due and payable, whereby:

- (i) no further issuance may be made under the Master Programme and the whole of the principal sums outstanding together with all other sums payable shall become immediately due and payable; and in which case,
- (ii) the Trustee shall have recourse to all remedies made

available under the Programme Documents and the Issuer will reimburse all parties for all reasonable losses and expenses incurred in consequence of the Event of Default and/or of the acceleration of the Master Programme.

“Material Adverse Effect” means, in relation to the Issuer, any material adverse effect on the financial condition of the Issuer or the occurrence of any event, which may materially and adversely affect the ability of the Issuer to perform any of its obligations under any of the Programme Documents.

- (w) Principal terms and conditions for warrants (where applicable) : Not applicable
- (x) Other principal terms and conditions for the issue
  - (i) Positive covenants : The covenants which shall include (but not limited to) the following and those required to comply with the SC’s *Guidelines on the Minimum Contents Requirements for Trust Deeds*,:
    - (a) Preserve and keep in force and effect all licenses, permits, approvals and rights necessary for the conduct of HLFG’s business;
    - (b) Promptly notify the Facility Agent/Trustee of: -
      - (i) Any change in the persons or signatories of HLFG who are authorised to act for and on behalf of HLFG in respect of the Programme Documents;
      - (ii) Any circumstances that has occurred that would have a Material Adverse Effect on the ability of HLFG to perform its obligations under the Programme Documents;
      - (iii) Any substantial change in the nature of the business of HLFG;
      - (iv) Any Event of Default;
      - (v) Any right or remedy under the terms of the Programme Documents becomes enforceable.
    - (c) Prepare all financial statements on a basis consistently applied in accordance with generally accepted accounting principles in Malaysia;
    - (d) Deliver to the Facility Agent/Trustee:-
      - (i) semi-annual unaudited consolidated financial statements and annual consolidated audited accounts;
      - (ii) Such additional financial or other information as the relevant noteholders may from time to time reasonably request;

- (e) Conduct its business and affairs with reasonable diligence and in a proper and efficient manner in accordance with sound financial and commercial standards and practices and in accordance with its constitutional documents;
  - (f) Undertake to maintain all necessary insurances required in respect of its assets and businesses against such risks as is usual industry practice for companies carrying on the same or substantially similar business;
  - (g) HLFG shall at all times be the single largest shareholder of Hong Leong Bank Berhad;
  - (h) Make payment of all taxes and fees to the relevant authorities the non-payment of which is likely to have a Material Adverse Effect;
  - (i) In addition to and without prejudice to the other provisions, limited so far as required by the CMSA and/or so far as directed by the Securities Commission, it will comply with the provisions of the CMSA and/or the Securities Commission's Guidelines on the Offerings of the Private Debt Securities and/or the directive, written notices, circulars or guidelines issued by the Securities Commission from time to time;
  - (j) Any other positive covenants as may be advised by the Solicitors.
- (ii) Negative covenants : The covenants which shall include (but not limited to) the following and those required to comply with the SC's *Guidelines on the Minimum Contents Requirements for Trust Deeds*, wherein the Issuer shall not without the prior written consent of the noteholders (by special resolution):-
- (a) Grant guarantees, indemnities or similar assurances against financial loss in respect of any indebtedness of any affiliate or third party other than such guarantees, indemnities or similar assurances granted in the ordinary course of HLFG's business and/or such guarantees, indemnities or similar assurances granted in respect of any indebtedness of any of HLFG's related companies;
  - (b) obtain or permit to exist any loans or advances from its shareholders or associated companies unless these loans and advances are subordinated to the Master Programme;
  - (c) Enter into any amalgamation, de-merger, reconstruction or winding up of itself or any of its subsidiaries, which has a Material Adverse Effect on the ability of HLFG to perform its obligations under the Programme Documents;

- (d) Amend its Memorandum and Articles of Association to become inconsistent with the provisions of the Programme Documents, save for amendments required by law and regulation.
- (e) Cancel, surrender, abandon or otherwise change in a material manner the nature or scope of its existing business in any way which has a Material Adverse Effect on the ability of HLFG to perform its obligations under the Programme Documents;
- (f) Decrease its authorised or issued and paid-up share capital by reduction of capital or cancellation of capital or redeem any share capital or otherwise save and except for any redemption of redeemable preference shares and share buyback scheme permitted under any applicable laws. For avoidance of doubt, share buyback which are held as treasury shares for Employees Share Option Scheme (“ESOS”) shall not be deemed as reduction in paid-up share capital;
- (g) Release, surrender, reduce, waive, amend or vary the amount of any material indebtedness owed to it the consequence of which will have a Material Adverse Effect on the ability of HLFG to perform its obligations under the Master Programme;
- (h) Declare or pay any dividends, make any distribution (whether income or capital in nature) or payments in relation to principal, interest or otherwise on shareholders’ loans or advances to its shareholders unless all of the following criteria has been met:
  - (i) no event of default or potential event of default has occurred and is continuing or would occur if such payment is made; and
  - (ii) no breach of any of the Financial Covenant would occur if such payment is made.
- (i) Change or threaten to change the nature or scope of its business save and except for such change of its nature or scope of business arising from a corporate reorganization exercise involving itself and its wholly owned subsidiary companies which would not have a Material Adverse Effect on its consolidated financial position;
- (j) Any other negative covenants as may be advised by the Solicitors.

- (iii) Financial Covenant : To maintain a Debt to Equity ratio of not more than 1.5:1 at all times. The Debt to Equity ratio will be based on the Issuer's latest annual audited financial accounts. This is to be certified by the external auditor of the Issuer in relation to the Issuer's latest annual audited financial statements whereby,

Debt means, with respect to the Issuer's annual audited financial statements, all indebtedness for borrowed moneys (excluding subordinated advances/loans from its shareholders), hire purchase obligations, finance lease obligations, letters of credits or guarantees issued for the account of the Issuer, the net exposure determined on a marked to market basis under hedging agreements (if any), any third party borrowings guaranteed by the Issuer and interest due or paid in the relevant financial year; and

Equity means the total shareholders' funds of the Issuer including subordinated advances/loans from its shareholders (if any) less intangibles (if any).

- (iv) Mandatory Redemption : Unless previously redeemed, purchased and cancelled, the Notes shall be redeemed at their respective face values on the respective maturity dates of the Notes. Any Notes redeemed by the Issuer may be re-issued provided that the outstanding nominal value of the Notes shall not exceed the Master Limit and the CPs mature prior to the expiry of the CP Programme and the MTNs mature prior to the expiry of the MTN Programme.
- (v) Purchase and Cancellation : In accordance with all applicable laws and regulations, the Issuer or its subsidiaries may at any time purchase the CPs and/or MTNs at any price in the open market or by private treaty and any CPs and/or MTNs purchased by the Issuer's subsidiaries may be retained or sold. Any CPs and/or MTNs purchased by the Issuer shall be cancelled.
- (vi) Issue Date : The first issuance under the Master Programme shall not be later than two (2) years from the date of the SC's approval for the Master Programme.
- (vii) Status and Ranking : The Notes will constitute direct, unconditional and unsecured obligations of HLFGL ranking *pari-passu* without any preference or priority among themselves and at least *pari-passu* with all other present and future unsecured obligations of HLFGL, save and except for those obligations preferred by law.
- (viii) Taxes : All payments of principal and interest in respect of the CPs and/or MTNs by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Malaysia or any political subdivision thereof or any authority therein or thereof having

power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

- (ix) Programme Documents : The Master Programme shall be evidenced by inter-alia the following:
- (i) CP Programme Agreement
  - (ii) MTN Programme Agreement
  - (iii) Trust Deed(s)
  - (iv) Tender Panel Agreement
  - (v) Such other documents as may be advised by the Solicitors.
- (x) Governing Law : Law of Malaysia

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## 2.2 DETAILS OF THE UTILIZATION OF PROCEEDS

Proceeds of the Notes will be utilized by the Issuer as follows:-

First Issuance	
i.	To settle the outstanding amounts under the Issuer's existing facility <sup>(a)</sup>
Subsequent Issuance	
ii.	To refinance/settle (whether in whole or in part) any other financing facilities of the Issuer;
iii.	To finance any general investments and/or working capital purposes of the HLFG Group.
iv.	To refinance any CPs and/or MTNs on its respective maturity dates.

(a) *Refinancing of the Existing CP/MTN Programme.*

*The Existing CP/MTN Programme which was arranged by Hong Leong Bank Berhad was first issued on 12 November 2007. The tenure of the CP/MTN Programme is seven (7) years from the date of first issue and the outstanding notes (excluding the interest portion) as at 4<sup>th</sup> July 2011 is RM580.0 million.*

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## **SECTION 3.0 INVESTMENT CONSIDERATIONS**

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Prospective investors of the Notes should consider carefully all information set out in this Information Memorandum and, in particular, the following risks involved. The Notes are subject to certain risks that could adversely affect the business of HLFG. Furthermore, each issuance of the Notes under the Master Programme will carry different risks and all potential investors are strongly encouraged to evaluate each Notes issuance on its own merit. The following section does not purport to be complete or exhaustive. Prospective investors should undertake their own investigations and analysis on HLFG, its business and risks associated with the Notes.

### **3.1 NO PRIOR MARKET FOR THE NOTES**

The Notes comprise a new issue of securities for which there is currently no available market. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of the Noteholders to sell the Notes or the process at which Noteholders would be able to sell the Notes. The Noteholders should also take note that the Notes will not be listed on the Bursa Securities and there are selling restrictions governing the Notes as described under “Selling restriction” under the Principal Terms and Conditions of the Notes in Section 2.1 above.

### **3.2 RATING**

It is a condition for the establishment of the Master Programme and issuance of Notes that the Notes be rated. The Notes are subject to annual rating reviews by MARC.

A rating is not a recommendation to purchase, hold or sell the Notes. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. In the event that the rating initially assigned to the Notes are subsequently lowered or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Notes. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Notes but would not constitute an event of default or an event obliging the Issuer to prepay the Notes.

### **3.3 ISSUER’S ABILITY TO MEET ITS OBLIGATIONS UNDER THE NOTES**

The ability of HLFG to meet its obligations to pay the coupon and principal sum of the Notes depend on HLFG’s income, revenue and return on its investment portfolio, which in turn is dependent on the financial performance of HLFG Group. Repayment of the Notes will be HLFG’s obligation alone. In particular, the Notes will not be the obligations or responsibilities of, or guaranteed by the Joint Lead Managers, the Lead Arranger, the Facility Agent, the Trustee or any affiliate company thereof, and any other person involved or interested in the transaction envisaged under the Master Programme. None of such person will accept any liability whatsoever to the Noteholders in respect of any failure by HLFG to pay any amount due under the Notes.

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### **3.4 CONSIDERATIONS RELATING TO THE ISSUER**

HLFG is principally exposed to the financial services sector. As such, risks relating to the Malaysian financial services sector are relevant considerations for potential investors for the Notes.

#### **3.4.1 COMPETITION**

The face of the financial services industry is changing rapidly. Deregulation has opened up possibilities for banks to diversify their income from non-banking businesses such as bancassurance. At the same time, liberalization has also brought greater competition among market players, driven by the emergence of large local and foreign players. Going forward, competition is expected to intensify further, forcing financial institutions to work efficiently on shrinking margins. These financial institutions must improve their profitability, efficiency and technology and explore cost effective solutions.

HLFG Group faces competition from other institutions in the financial services sector in Malaysia, both domestic and foreign. The level of competition in the Malaysian financial services industry has been heightened with the gradual liberalisation of the industry.

The HLFG Group is committed towards business integrity and professionalism and firmly supports effective corporate governance and development of best practices. HLFG's Board through various committees manages the business and affairs of its various businesses in a manner consistent with the objectives of good corporate governance and accountability towards the enhancement of shareholder value. HLFG Group's senior management team comprise of members with broad range of experiences and an average of more than 10 years service in their respective fields. The stable and experienced senior management team allows effective planning and execution of HLFG Group's long-term vision.

#### **3.4.2 HOLDING COMPANY STRUCTURE**

HLFG relies on dividend income from its subsidiaries and affiliates to meet its obligations under the Master Programme. The ability of its subsidiaries and affiliates to pay dividends to HLFG is dependent on its subsidiaries and affiliates maintaining profitable operations and all applicable laws and restrictions on the said payments contained in relevant financing or other agreements.

#### **3.4.3 INTEREST RATE FLUCTUATION RISK**

Fluctuations in interest rates will affect HLFG's earnings stream and level of income through changes in net interest income. Adverse impact on net interest income resulting from interest rate movements can be caused by differences in the timing of accrual changes (repricing risk), changing rate and yield curve relationships (basis and yield curve risks) and optionalities.

Measures such as interest rate risk limits have been established to control and manage the potential loss of income from adverse interest rate movements. Strategies and mitigating actions are regularly reviewed and executed interchangeably to improve the net interest income under various interest rate scenarios. Strategies adopted include repricing or adjusting the maturity tenor of assets and liabilities, re-strategizing new business growth, securing long term fixed rate funding and entering into interest rate derivative contracts.

Although HLFG believes that it has adopted sound interest rate management strategies and intends to maintain it, no assurance can be given that such strategies will remain effective or adequate in the future.

### **3.5 DEPENDENCE ON DIRECTORS AND KEY MANAGEMENT**

HLFG to a significant extent relies on some of its directors and senior management for its business directions and effective implementation of business strategy. The loss of existing key members of this management team could adversely affect its ability to operate its business or to compete in the industry, and in turn, affect its financial performance and prospects. Every effort is being made to groom younger members of the senior management team to ensure a smooth transition in the management team, should change occur.

Whilst there is no assurance that there would be continuity in HLFG's present management team throughout the tenure of the Notes, HLFG will endeavour to maintain its current prudent management philosophy whilst adhering to a high standard of corporate governance, accountability and disclosure practices.

### **3.6 CONSIDERATIONS RELATING TO HLB GROUP**

#### **3.6.1 Certain economic, market and political factors are outside the HLB Group's control**

Economic external factors beyond the HLB Group's control could cause volatility in and adversely affect, demand for the HLB Group's financial services and operating margins. Examples of such external factors include, but are not limited to:

- (a) entry of new competitors and other actions by new and existing competitors;
- (b) general economic, political and social conditions;
- (c) consumer spending patterns;
- (d) foreign currency exchange rate and interest rate fluctuations;
- (e) international events and circumstances such as wars, terrorist attacks and political instability; and
- (f) changes in legal regimes and governmental regulations, such as licensing and approvals, taxation, duties and tariffs, in Malaysia and abroad.

There can be no assurance that adverse economic, market and political factors will not have a material adverse effect on the HLB Group's business, financial condition, results of operations and prospects.

#### **3.6.2 Liquidity shortfalls may increase the cost of funds**

HLB Group's funding resources to support its loan and investment operations are characterised by short-term customer deposits comprising demand deposits, savings deposits, fixed deposits and short-term loans from financial institutions. Historically, the HLB Group's deposits resources have contained a significant level of core deposits. There can be no assurance that its stable deposit resources will continue. For instance, if significant deposits are withdrawn or not rolled over upon maturity, the HLB Group's liquidity position could be adversely affected and HLB may need to borrow from alternative short-term or long-term sources at a higher cost to fund its operations. Such funding may not be available on commercially reasonable terms, or at all. This may materially and adversely affect the HLB Group's business, financial condition, results of operations and prospects.

### **3.6.3 Economic downturns may materially and adversely affect the HLB Group's operations and financial condition**

HLB Group's operations and financial condition may be materially affected by conditions in the global capital markets and general economy in Malaysia, Asia and elsewhere. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during the second half of 2008. Similar pressures were also witnessed during 2009 and in the first half of 2010, and these pressures may continue to be felt for a significant period of time. Concerns over inflation, geopolitical issues, the availability and cost of credit, the credit crisis in Greece and other parts of Europe and political climate in Northern Africa have contributed to a reduction of liquidity levels globally, a general decline in lending activity between financial institutions and in commercial lending markets, and increased volatility and diminished expectations for the global economy and capital markets in the near term future. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and recessionary pressures globally. The recent downgrade in the credit rating of United States provides greater uncertainty to the global financial market.

If the capital and credit markets continue to experience volatility and the availability of funds remains limited, the HLB Group will incur increased financing costs associated with its debt and with the issuance of debt securities. Moreover, it is possible that the HLB Group's ability to access the capital and credit markets may be limited by these or other factors at the time when the HLB Group would like, or need, to do so, and as a result could have an impact on the HLB Group's ability to grow its business, refinance maturing debt, maintain credit ratings and/or react to changing economic and business conditions. The HLB Group may require additional financing to support the future growth of its business and/or to refinance existing debt obligations. There can be no assurance that additional financing, either in a short-term or long-term basis, will be made available or, if available, that such financing will be obtained on terms favourable to the HLB Group.

### **3.6.4 HLB's business is inherently subject to the risk of market fluctuations**

HLB's business is inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, exchange rates, interest rates, inflation rates, credit spreads, commodity, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with business, pricing and hedging assumptions. In particular, as a result of the HLB Group's expansion into foreign markets, the HLB Group may become increasingly exposed to changes in, and increased volatility of, foreign currency exchange rates.

Market movements may have an impact on HLB in a number of key areas. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. Historically, there have been periods of high and volatile interbank lending margins over official rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict HLB in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

Any failure by the HLB Group to implement, or consistently follow, its risk management systems may adversely affect its financial condition and results of operations. In addition, the HLB Group's risk management systems may not be fully effective in mitigating risk exposure in all market environments or against all types of risks, including risks that are unidentified or unanticipated. Some methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicated.

### **3.6.5 Impact of FRS 139 and impaired loans and related allowances for impairment losses**

The Malaysian Accounting Standards Board has issued a new accounting standard “FRS 139 Financial Instruments: Recognition and Measurement” applicable to all entities for annual periods beginning on or after 1 January 2010.

The HLB Group has accordingly adopted FRS 139 with effect from the financial year beginning 1 July 2010. FRS 139 requires, *inter alia*, the application of fair value accounting and impairment assessments and provisions for financial assets and financial liabilities.

The adoption of FRS 139 by the HLB Group has primarily impacted the classification and impairment provisions of loans and has resulted in certain adjustments to opening reserves of loans or assets balances. There can be no assurance that the level of provisions would be adequate under the new rules.

In addition, any worsening of economic conditions in Malaysia or the region may lead to an increase in impaired loans. A substantial increase in impaired loans may materially and adversely affect the HLB Group’s business, financial condition, results of operations and prospects and necessitate write-offs which may materially and adversely impact its capital adequacy ratio.

### **3.6.6 A significant deterioration in the HLB Group’s asset quality could adversely affect the financial condition, results of operations or prospects of the HLB Group if its loan provisions or credit and risk management policies are insufficient to cover its liabilities or are ineffective for any reason**

Asset quality is a key driver of a financial institution’s performance. While the HLB Group adopts prudent credit risk management policies to manage its asset quality, there can be no assurance that the policies will remain effective or adequate in the future. A significant deterioration of asset quality or material non-compliance with its credit risk management policies or asset quality management system may adversely affect the business, financial condition and results of operations of the HLB Group.

### **3.6.7 Credit risks in connection with the HLB Group’s businesses**

Credit risks arising from adverse changes in the credit quality and recoverability of loans, advances and amounts due from counterparties are inherent in a wide range of the HLB Group’s businesses. Such risk could arise from a general deterioration in local or global economic conditions or from systemic risks within the financial systems, all of which could affect the recoverability and value of the HLB Group’s assets and require an increase in the HLB Group’s provisions for the impairment of its assets and other credit exposures. Such credit risks or industry credit concentrations may materially and adversely affect the HLB Group’s business, financial condition, results of operations and prospects.

### **3.6.8 Deterioration in collateral values, in particular the value of real estate, or inability to realise collateral value may necessitate an increase in the HLB Group’s provisions**

HLB Group’s largest concentration of loans is housing loans, which comprised 41% of the HLB Group’s total loans as at 30 June 2011. Consequently, a significant portion of the HLB Group’s loans are secured by collateral such as real estate, the value of which, in some cases, has declined due to economic deterioration or general worsening of the current global market outlook.

This may result in a portion of the HLB Group’s loans exceeding the value of the underlying collateral. Any such deterioration in the value of the collateral securing the HLB Group’s loans or its inability to

obtain additional collateral or inability to realise the value of existing collateral may require the HLB Group to increase its loan provisions, which may adversely affect the business, financial condition and results of operations of the HLB Group and may necessitate write-offs which may materially and adversely impact its capital adequacy ratio.

### **3.6.9 There can be no assurance that the businesses acquired from EON Capital Berhad (“EON Cap”) will fully or successfully integrate with the existing businesses of HLB Group**

On 6 May 2011, HLB completed the acquisition of the entire assets and liabilities of **EON Cap** for a purchase consideration of RM5,060.4 million (“**Acquisition**”) resulting in the merger of the commercial banking businesses on 1 July 2011.

As the implementation of the transition and integration of EON Bank Berhad’s (now known as Promino Sdn Bhd) (“**EON Bank**”) and HLB’s commercial banking businesses is still ongoing at the moment, there can be no assurance that the two businesses will fully or successfully integrate. Specifically, there can be no assurance that:

- (a) there will be no disruptions to key business processes or impact on business continuity, including reconciliation of customers and accounts during the transition and integration process;
- (b) the key employees of both groups will remain and that possible differences between business cultures and practices of the two banks can be addressed;
- (c) the accounting policies and the risk management frameworks of EON Bank’s can be aligned with HLB’s successfully without any material provision having to be made;
- (d) management of both groups will remain focused on ongoing business concerns during the implementation of the integration process; and
- (e) there will not be reduction in customer base for HLB Group during the transitional period.

To the extent that the two businesses fail to integrate fully or successfully, HLB Group may not be able to realise the anticipated benefits arising from the Acquisition.

### **3.6.10 HLB Group may face increasing levels of competition in Malaysia**

The Malaysian banking industry operates in a very competitive environment fostered by BNM’s policies, including, *inter alia*, foreign licensed Islamic banks and domestic Islamic banks which are now allowed to offer/perform products and services that are similar to those of the HLB Group. Further, BNM announced in 2009 further measures to liberalise the Malaysian financial sector, including a framework for the issuance of up to 5 new commercial banking licences and 2 new Islamic banking licences to foreign financial institutions and the increase of foreign equity limits to 70% for existing domestic Islamic banks, investment banks, insurance companies and takaful companies (“**BNM Announcement**”). From the date of the BNM Announcement up to 22 August 2011, BNM further announced the issuance of 2 commercial banking licences and 1 Islamic banking licence (separate from the banking licences contemplated under the BNM Announcement). These measures will further intensify the competition that the HLB Group faces. Any increased competition could have an adverse effect on the HLB Group’s operations in the form of reduced margins, smaller market share and reduced income generally.

In addition, the HLB Group’s future growth will be subject to competition from other service providers in the markets in which the HLB Group operates. As such, there can be no assurance that the HLB Group

will be able to maintain or increase its present market share in the future or that increased competition will not materially and adversely affect the HLB Group's business, financial condition, results of operations and prospects.

**3.6.11 HLB Group may be required to raise additional capital if its capital adequacy ratio deteriorate in the future or in order to comply with any new regulatory capital framework, but it may not be able to do so on favourable terms, or at all**

Pursuant to BNM's capital adequacy guidelines, banks in Malaysia are required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of at least 8.0%. The HLB Group's capital base and capital adequacy ratio may deteriorate in the future if its results of operations or financial condition deteriorate for any reason, including as a result of any deterioration in the asset quality of its loans, or if the HLB Group is not able to deploy its funding into suitably low-risk assets. If the HLB Group's capital adequacy ratio deteriorates, it may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy guidelines. However, the HLB Group may not be able to obtain additional capital on favourable terms, or at all.

In addition, the Basel Committee on Banking Supervision ("BCBS") had in early 2011 issued its final guidance on Basel III which includes, amongst others, the following reforms to its regulatory capital framework:

- (a) increase in minimum common equity (or equivalent) requirement from 2.0% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments) of risk weighted assets;
- (b) requirement to maintain, in the form of common equity (or equivalent), a capital conservation buffer of 2.5% (bringing the total common equity (or equivalent) requirements to 7.0% of risk weighted assets); and
- (c) increase in total Tier I capital requirement from 4.0% to 6.0% of risk weighted assets.

The Basel III reforms also require Tier I and Tier II capital instruments to be more loss-absorbing. If the Basel III is implemented in Malaysia in their current form, the reforms would therefore increase the minimum quantity and quality of capital which the HLB Group is obliged to maintain. There can be no assurance as to the availability or cost of such capital for the HLB Group.

The proposed reforms are expected to be implemented by the beginning of 2013. However the requirements are subject to a series of transitional arrangements and, where implemented, will be phased in over a period of time, to be fully effective by 2019.

There can be no assurance that, prior to its implementation in 2013, BCBS will not amend the package of reforms described above. Further, Basel III may be implemented in Malaysia in a manner that is different from that which is currently envisaged, or regulations may be introduced in Malaysia which impose additional capital requirements on, or otherwise affect the capital adequacy requirements relating to, Malaysian banks. There is no assurance that the HLB Group will not face increased pressure on its capital in the future to comply with Basel III standards which may have an adverse effect on the HLB Group's business, financial condition, results of operations and prospects.



### **3.6.12 HLB Group is dependent on its Directors and senior management**

HLB Group, to a significant extent, relies on its Directors and senior management for its business direction and business strategy. The loss of its Directors or members of the senior management team could adversely affect its ability to operate its business or to compete effectively, and in turn, affect its financial performance and prospects.

### **3.6.13 Significant fraud, system failures, calamities or security breaches could materially and adversely impact the HLB Group's business**

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (such as those of the HLB Group's counterparties or vendors) and the occurrence of natural disasters. Although the HLB Group has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, there can be no assurance that such measures will be successful.

In addition, the HLB Group seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the HLB Group's increased use of the Internet. Computer break-ins and power disruptions could affect the security of information stored in, and transmitted through, these computer systems and network infrastructure. The HLB Group employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches. There can be no assurance that these security measures will be adequate or successful.

A significant fraud, system failure, calamity or failure in security measures could have a material adverse effect on the HLB Group's business, financial condition, results of operations and prospects. In addition, the HLB Group's reputation could be adversely affected by significant frauds committed by employees, customers or other third parties.

### **3.6.14 If the HLB Group is unable to adapt to rapid technological changes on a timely basis**

The HLB Group's future success and ability to compete with other banks will depend, in part, on its ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. While the HLB Group has dedicated significant resources to implementing the latest technological advances to improving the accessibility of its services, for instance, through internet and mobile phone banking, there can be no assurance that the HLB Group will successfully implement new technologies effectively or adapt its transaction-processing systems to customer requirements or industry standards, which may, in turn, have a material adverse effect on its business and financial condition.

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### **3.7 CONSIDERATIONS RELATING TO HLA**

#### **3.7.1 Political, economic and market consideration outside control of HLA**

Economic external factors beyond HLA's control could cause volatility in and adversely affect demand for HLA's financial services and operating margins. Examples of such external factors include, but are not limited to:

- (a) general economic, political and social conditions;
- (b) interest rate fluctuations;
- (c) entry of new competitors and other actions by new and existing competitors;
- (d) consumer spending patterns;
- (e) international events and circumstances such as wars, terrorist attacks and political instability; and
- (f) changes in legal regimes and governmental regulations, such as licensing and approvals, taxation, duties and tariffs, in Malaysia and abroad.

There is no assurance that adverse economic, market and political factors will not materially affect HLA's business, financial condition, results of operations and prospects.

#### **3.7.2 HLA's business is inherently subject to the risk of market fluctuation**

HLA's business is inherently subject to risks in financial markets, and in the wider economy including changes in and increased volatility of interest rates, inflation rates, credit spreads, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with business and pricing assumptions.

Market movements may have an impact on HLA in a number of key areas. For example, changes in interest rate levels, yield curves and spreads will affect actuarial reserve. Prolonged low interest rate regime may hurt the profitability of the business. HLA, with exposure in quoted securities, is subject to market risk due to price movement. Exposure to such risks may have a material impact on HLA's investment income. Whilst HLA is aware of such risks, sound investment policies, strategies and management practices have been adopted by HLA to minimise the possibility and impact of such risks to HLA.

#### **3.7.3 HLA may be required to raise capital if its capital adequacy ratio deteriorated**

Pursuant to BNM's Risk Based Capital Guidelines, insurers in Malaysia are required to maintain a minimum capital adequacy ratio of at least 130.0%. HLA's capital adequacy ratio may deteriorate in the future if its results of operations or financial condition deteriorate for any reason, including as a result of any deterioration in the value of invested assets. If HLA's capital adequacy ratio deteriorates, it may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable guidelines.

In addition, with the Solvency II Directive, a capital adequacy regime for the European insurance industry, coming into effect on 1 January 2013 in European Union, Bank Negara Malaysia may adopt similar requirement in Malaysia, like Basel III framework for banking institutions. HLA is unable to assess the impact of Solvency II to HLA for the time being.

#### **3.7.4 Highly dependent on its Directors and senior management**

HLA, to a significant extent, relies on its Directors and senior management for its business direction and business strategy. The loss of its Directors or members of the senior management team could adversely

affect its ability to operate its business or to compete effectively, and in turn, affect its financial performance and prospects.

### **3.7.5 System failure could materially and adversely impact the business**

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (such as those of HLA's counterparties or vendors) and the occurrence of natural disasters. Although HLA has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, there is no assurance that such measures will be successful.

In addition, HLA seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by HLA's increased use of the Internet. Computer break-ins and power disruptions could affect the security of information stored in, and transmitted through these computer systems and network infrastructure. HLA employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches. There is no assurance that these security measures will be adequate or successful.

A significant fraud, system failure, calamity or failure in security measures could have a material adverse effect on HLA's business, financial condition, results of operations and prospects. In addition, HLA's reputation could be adversely affected by significant frauds committed by employees, customers or other third parties.

### **3.7.6 Unable to adapt to rapid technological change**

HLA's future success and ability to compete with other insurers will depend, in part, on its ability to respond to technological advances and industry standards and practices on a cost-effective and timely basis. While HLA has dedicated significant resources to implementing the latest technological advances to improving the efficiency and accessibility of its services, for instance, using image and workflow system in its operations, using internet portal to communicate with its agency force, there is no assurance that HLA will successfully implement new technologies effectively or adapt its transaction-processing systems to customer requirements or industry standards, which may, in turn, have a material adverse effect on its business and financial condition.

### **3.7.7 Failure to comply with the regulatory guideline**

HLA's operations are subject to rules and regulations of the insurance industry. The insurance industry is extensively regulated by the government and self-regulations. A failure to comply with any of these regulations could result in regulatory investigations, fines or other sanctions. In Malaysia, insurance companies are generally subject to the supervision and regulation of BNM. BNM is vested with comprehensive legal powers under various laws to regulate and supervise the Malaysian financial systems and has the ability to influence the financial markets generally. For example, BNM has the ability to limit commission payable to the distribution channels, to limit investment allocation of certain assets segment. These requirements and regulations may limit HLA's activities or result in high compliance costs.

No assurance can be given that any future changes to present law, regulation or any introduction of new regulation by relevant authorities will not have a material adverse impact on HLA's business.

### **3.7.8 Reliance of agency channels**

While HLA has a number of distribution channels, agency channel is still the major contributor to the new business premiums. Although all agents are appointed under formal agency agreements, there is no assurance that the level of support from each agent will remain consistent under changing business environment from time to time. However, this uncertainty is mitigated by the long-standing business relationship, management efforts, and agency friendly policies of HLA that involve continuous upgrading of facilities for agents to do business with HLA at ease. Additionally, for HLA, it is continuously growing its bancassurance channel, exploring alternative distribution channels and seeking to further expand the existing agency network to minimise over-dependence on any single group of agents.

### **3.7.9 Life insurance underwriting risks**

Underwriting risk represents the inherent risk in insurance of incurring higher claims costs than expected. This is due to the random nature of claims, changes in legal or economic conditions or behavioural patterns affecting the frequency and severity of claims. HLA manages underwriting risks through the following means:-

- Maintaining a measure of conservatism with respect to the adequacy of insurance premium rate levels and provisions with respect to insurance liabilities;
- Observing underwriting guidelines, which cover exclusions and cover limits; and
- Transferring risks through a program of reinsurance that seeks to limit the exposure to any one risk or life as well as protect the overall retained portfolio from a general deterioration in claims as well as catastrophic events.

## **3.8 POLITICAL ECONOMIC AND REGULATORY CONSIDERATIONS**

Adverse developments in general political, economic and regulatory conditions in Malaysia and other jurisdictions in which HLFG or its subsidiaries and affiliates operates including but not limited to, the risks of war, terrorism, riots, expropriation, nationalism, renegotiations or nullification of existing contracts, changes in interest rates, changes in inflation, methods of taxation and/or introduction of new regulations could materially and/or adversely affect the business and financial prospects of HLFG Group.

Although measures may be taken by HLFG Group to address and/or mitigate such developments, no assurance can be given that such measures would be sufficient or effective in the circumstances.

## **3.9 FORWARD LOOKING STATEMENTS**

Certain statements in this Information Memorandum are based on historical data, which may not be reflective of future results, and others are forward-looking in nature, which are subject to uncertainties and contingencies. All forward-looking statements are based on estimates and assumptions made by HLFG, and although the Board of HLFG believes that these forward-looking statements are reasonable, the statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied in such forward-looking statements and no assurance can be given that any of such forward-looking statements or estimates will be realized. In light of these and other uncertainties, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by HLFG, the Lead Arranger/Principal Adviser or the Joint Lead Managers that the plans and objectives of HLFG will be achieved.

### **3.10 CHANGE OF LAW**

The issue of the Notes is based on Malaysian law, tax and administrative practice in effect at the date hereof and having due regard to the expected tax treatment of all relevant statutes under such law and practice. No assurance can be given that Malaysian law, tax or administrative practice will not change after the closing date or that such change will not adversely impact the structure of the transaction and the treatment of the Notes.

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## **SECTION 4.0 BACKGROUND INFORMATION ON THE ISSUER, HONG LEONG ASSURANCE BERHAD, HONG LEONG BANK BERHAD AND HONG LEONG CAPITAL BERHAD**

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### **4.1 CORPORATE HISTORY AND PRINCIPAL ACTIVITIES**

HLFG was incorporated in Malaysia under the Act on 6 September 1968 as a private limited company under the name of Office Products Sdn Berhad. It subsequently changed its name to Sovran Industries Sdn Berhad on 17 June 1969 and was converted to a public company under the name of Sovran Industries Berhad on 29 July 1969. It was admitted to the Official List of the Kuala Lumpur Stock Exchange (now known as Bursa Securities) on 27 November 1969. On 14 May 1980, the name was changed to Hong Leong Credit Berhad. It assumed its present name on 27 July 2006.

The principal activities of HLFG are those of investment holding and provision of services to its subsidiaries to enhance group value. HLFG Group is a diversified financial group whose businesses provide a broad range of financial products and services to consumer, corporate and institutional customers. The principal activities of the significant subsidiaries consist of commercial banking business, Islamic banking services, insurance and takaful business, investment banking, futures and stockbroking and asset management business.

Through HLB, the HLFG Group provides comprehensive services in personal financial services, business banking, treasury, transaction banking, wealth management and Islamic financial services. With the recent merger with the EON Bank Group, HLB has an expanded distribution network of more than 300 branches and 1,200 self-service terminals nationwide in Malaysia, further embedding the bank and brand into the community.

HLB has been rapidly extending its footprint in the region, with branches in Singapore and Hong Kong and a wholly owned subsidiary in Vietnam. In China, HLB has a 19.99% shareholding in Bank of Chengdu Co., Ltd., Chengdu and a 49% shareholding in the joint-venture company, Sichuan Jincheng Consumer Finance Limited Company.

Islamic banking and wealth management services are provided via its full fledged Islamic bank, Hong Leong Islamic Bank Berhad. It offers Syariah-compliant solutions in wholesale and investment banking, business banking, personal financial services and wealth management.

HLA is one of Malaysia's fastest growing Life insurers backed by a fast expanding agency force nationwide. Through a strategic partnership exercise, HLA has merged its General insurance business with MSIG Insurance (Malaysia) Bhd, forming Malaysia's second largest General insurer. The HLFG Group is also present in Hong Kong through its subsidiary Hong Leong Insurance (Asia) Limited. Additionally, Islamic General Insurance, or Takaful is provided through Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad).

The HLFG Group also provides stock broking, investment banking, capital market services and fund management services across the region through the subsidiaries of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), namely Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd.

HLG Unit Trust Bhd, one of the pioneers in the Malaysian Unit Trust industry has merged with HLG Asset Management Sdn Bhd to form Hong Leong Asset Management Bhd.

## 4.2 SHARE CAPITAL STRUCTURE

As at 22 August 2011, the authorised share capital of the Issuer is RM2,000,000,000 divided into 2,000,000,000 ordinary shares of RM1.00 each. Its paid-up share capital is RM1,052,767,789 divided into 1,052,767,789 ordinary shares of RM1.00 each.

## 4.3 SHAREHOLDING STRUCTURE AS AT 22 AUGUST 2011

No	Name of Substantial Shareholder	Shareholdings			
		Direct	%	Indirect	%
1.	Hong Leong Company (Malaysia) Berhad	546,773,354	51.94	267,083,546	25.37 <sup>A</sup>
2.	Tan Sri Quek Leng Chan	4,989,600	0.47	824,437,300	78.31 <sup>B</sup>
3.	HL Holdings Sdn Bhd	-	-	813,856,900	77.31 <sup>C</sup>
4.	Kwek Holdings Pte Ltd	-	-	818,380,300	77.74 <sup>B</sup>
5.	Kwek Leng Beng	1,241,321	0.12	818,380,300	77.74 <sup>B</sup>
6.	Hong Realty (Private) Limited	-	-	818,380,300	77.74 <sup>B</sup>
7.	Hong Leong Investment Holdings Pte Ltd	-	-	818,380,300	77.74 <sup>B</sup>
8.	Davos Investment Holdings Private Limited	-	-	818,380,300	77.74 <sup>B</sup>
9.	Kwek Leng Kee	-	-	818,380,300	77.74 <sup>B</sup>
10.	Quek Leng Chye	1,925,100	0.18	818,380,300	77.74 <sup>B</sup>
11.	Guoco Assets Sdn Bhd	267,079,946	25.37	-	-
12.	GuoLine Overseas Limited	-	-	267,079,946	25.37 <sup>D</sup>
13.	Guoco Group Limited	-	-	267,079,946	25.37 <sup>D</sup>
14.	GuoLine Capital Assets Limited	-	-	267,079,946	25.37 <sup>D</sup>

Notes:

<sup>A</sup> Held through subsidiary(ies).

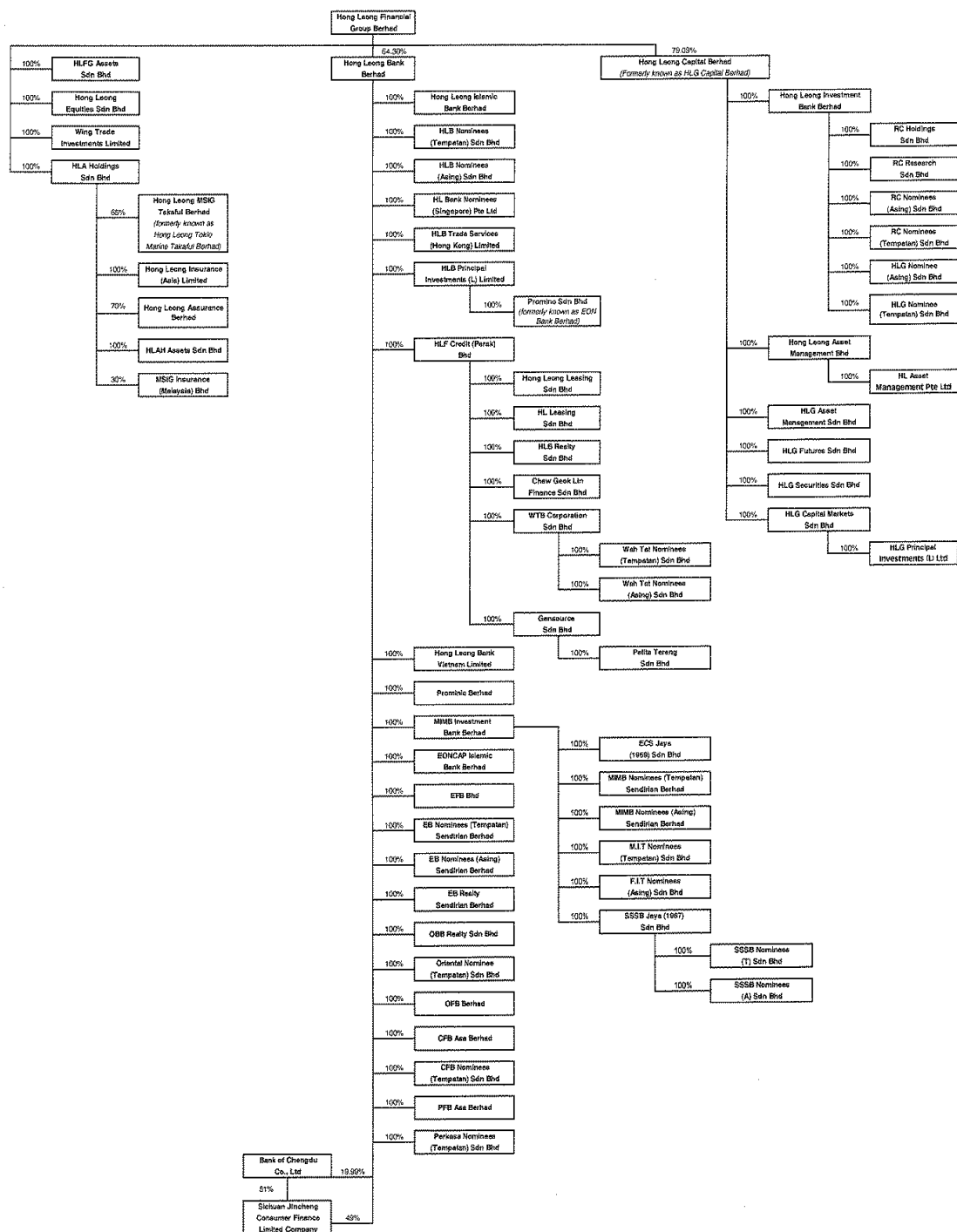
<sup>B</sup> Held through Hong Leong Company (Malaysia) Berhad (“**HLCM**”) and company(ies) in which the substantial shareholder has interest

<sup>C</sup> Held through HLCM

<sup>D</sup> Held through Guoco Assets Sdn Bhd

#### 4.4 CORPORATE STRUCTURE CHART OF HLFGB AS AT 22 AUGUST 2011

HONG LEONG FINANCIAL GROUP - CORPORATE STRUCTURE OF SUBSIDIARIES AND ASSOCIATE COMPANIES (AS AT 22 AUGUST 2011)





#### **4.5 PROFILES OF THE BOARD OF DIRECTORS OF HLFG AS AT 22 AUGUST 2011**

##### **YBHG TAN SRI QUEK LENG CHAN**

Chairman/Non-Independent

Tan Sri Quek Leng Chan, aged 68, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate. Tan Sri Quek is the Chairman of HLFG and was appointed to the Board of HLFG on 6 September 1968. He is a member of the Remuneration Committee (“RC”) and Nominating Committee (“NC”) of HLFG. He is the Chairman and Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, a public company, Executive Chairman of GuocoLand (Malaysia) Berhad, Hong Leong Industries Berhad and Narra Industries Berhad, Chairman of HLB and HLCB, companies listed on the Main Market of Bursa Securities, Chairman of HLA, Hong Leong Islamic Bank Berhad (“HLISB”) and Hong Leong Foundation, and a member of the Board of Trustees of The Community Chest, all public companies.

##### **MR CHOONG YEE HOW**

President & Chief Executive Officer/Non-Independent

Mr Choong Yee How, aged 55, a Malaysian, obtained a Bachelor of Science in Biochemistry (Honours) degree in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. Mr Choong has over 27 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG. Mr Choong was appointed to the Board of HLFG on 1 December 2005. Mr Choong is also a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, HLISB, Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad) and HLIB, all public companies.

##### **MR QUEK KON SEAN**

Executive Director/Non-Independent

Mr Quek Kon Sean, aged 31, a Malaysian, obtained a Bachelor of Science and Master of Science degree in Economics from the London School of Economics and Political Science. In 2002, he joined Goldman Sachs International, London as an Analyst in the Investment Banking Division and in 2003 he joined HSBC, London in Debt Capital Markets. Mr Quek is currently the Executive Director of HLFG. Prior to joining HLFG, Mr Quek was the Management Executive of HL Management Co Sdn Bhd. Mr Quek was appointed to the Board of HLFG on 1 December 2005. Mr Quek is also a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, a public company.

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**YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN**

Non-Executive Director/Independent

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, aged 75, a Malaysian, was educated in England and was called to the English Bar at Middle Temple in 1964. He is a Consultant in a legal firm in Penang in which he was a Senior Partner from 1969 till June 2008. He is the Chairman of the Advocates and Solicitors Disciplinary Board. He was in the Penang State Executive Council from 1974 to 1982 and has served on various statutory boards. YBhg Tan Sri Khalid was appointed to the Board of HLFG on 1 July 1982. YBhg Tan Sri Khalid is also the Chairman of the Board Audit and Risk Management Committee ("BARMC"), RC and NC of HLFG. YBhg Tan Sri Khalid is also a Director of HLCB, a company listed on the Main Market of Bursa Securities, and HLIB, a public company.

**YBHG GENERAL TAN SRI (DR) MOHAMED HASHIM BIN MOHD ALI (RTD)**

Non-Executive Director/Independent

YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd), aged 76, a Malaysian, attended the Harvard Business School Advance Management Programme Course in 1991 where he obtained a Diploma in Advance Management prior to his retirement from the Malaysian Armed Forces in 1992. He joined the Malaysian Armed Forces in 1953 and was first commissioned in the Royal Malay Regiment in 1956 after attending a series of Military Officer Cadet Courses both in Malaysia and overseas, particularly the Royal Military Academy in Sandhurst, England. He served in the Malaysian Armed Forces for 38 years and 9 months before retiring in April 1992 as the Chief of the Defence Forces. During his term in the Malaysian Armed Forces, he had initiated the re-organisation and modernisation of the Army. In May 1992, YBhg Gen Tan Sri joined Perwira Niaga Malaysia (PERNAMA) as Chairman, a company that served the Malaysian Armed Forces. In January 1999, he was conferred the Honorary Doctorate by the University of Salford, United Kingdom. He was elected as a member of The Selangor Royal Court (Ahli Dewan DiRaja Selangor) on 1 January 2005. YBhg Gen Tan Sri was appointed to the Board of HLFG on 8 June 1992 and is a member of the NC of HLFG. YBhg Gen Tan Sri is also the Non-Executive Chairman of Country Heights Holdings Berhad, Ajinomoto (Malaysia) Berhad, Delloyd Ventures Berhad, companies listed on the Main Market of Bursa Securities and Bluwater Developments Berhad, Borneo Highlands Hornbill Golf & Jungle Club Berhad and Mines Excellence Golf Resort Berhad, all public companies.

**DR POH SOON SIM**

Non-Executive Director/Non-Independent

Dr Poh Soon Sim, aged 66, a Malaysian, graduated from the University of Singapore with a MBBS degree in 1971. Dr Poh is also a fellow of the Royal Society of Medicine, United Kingdom. Dr Poh has been in private medical practice since 1972. Dr Poh was appointed to the Board of HLFG on 31 January 1991 and is a member of the BARMC, RC and NC of HLFG. Dr Poh is a Director of Wing Tai Malaysia Berhad (formerly known as DNP Holdings Berhad), a company listed on the Main Market of Bursa Securities. Dr Poh is also a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation, both public companies.

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#### MS YVONNE CHIA

Non-Executive Director/Non-Independent

Ms Yvonne Chia, aged 58, a Malaysian, holds a Bachelor of Economics (Second Class Upper Honours) from the University of Malaya. An international banker, Ms Chia started her career with the Bank of America and held various positions in Hong Kong, Manila and Kuala Lumpur between 1976 to 1993; the last position being Vice-President and Country Head of Marketing. In March 1994, Ms Chia joined RHB Bank Berhad ("**RHB Bank**") as General Manager and went on to become Chief Executive Officer/Managing Director of RHB Bank, a position she held until March 2002. She successfully grew RHB Bank to be one of leading local banks in Malaysia and in the region during the challenging years of the Asian financial crisis (1996-2002). She further strengthened RHB Bank's position from 6th to 3rd largest bank in Malaysia through a series of mergers and acquisitions with DCB Bank Berhad and Kwong Yik Bank Berhad. She also headed a distressed bank (the former Sime Bank Berhad) under the ambit of BNM during the Asian financial crisis (1999/2000) while serving concurrently as the Managing Director of RHB Bank. Ms Chia was made a Fellow of Institute of Bankers Malaysia in April 2002 and also a Certified Risk Professional (CRP) with BAI. In August 2005, Ms Chia was appointed to Wharton Fellows of the University of Pennsylvania. Ms Chia was appointed to the Board of HLFG on 9 January 2004. Ms Chia is also the Group Managing Director/Chief Executive of HLB, a company listed on the Main Market of Bursa Securities. Ms Chia is also a Director of HLISB and MIMB Investment Bank Berhad ("**MIMB**"), all public companies.

#### MS LIM TAU KIEN

Non-Executive Director/Independent

Ms Lim Tau Kien, aged 55, a Malaysian, graduated with a Bachelor of Accountancy from the University of Glasgow, Faculty of Law and is a Chartered Accountant registered with the Institute of Chartered Accountants of Scotland. Ms Lim forged her early career with Ernst & Young, United Kingdom, before joining the Ministry of Finance and Prime Minister's Department as a Federal Accountant. She subsequently moved to Shell where she held various senior financial positions over a period of 25 years, her last position being the Country Chief Financial Officer/Finance Director of Shell China. Ms Lim was appointed to the Board of HLFG on 8 April 2010 and is a member of the BARMC and NC of HLFG.

#### MS LIM LEAN SEE

Non-Executive Director/Independent

Ms Lim Lean See, aged 58, a Malaysian, holds an Associateship in Accounting and an Associateship in Secretarial and Administrative Practice both from the Curtin University, Australia. Her professional qualifications include being a Fellow of the Australian Society of Certified Practising Accountants, Registered Accountant with the Malaysian Institute of Accountants, a Trade Member of Financial Planning Association of Malaysia and a member of the Institut Bank-Bank Malaysia. Ms Lim has 33 years experience in the banking industry and has held various senior positions including the Head of Corporate Banking and Head of Business Banking Division, the last being the Chief Representative of a foreign bank Representative Office with the corporate rank of an Executive Director. Ms Lim was appointed to the Board of HLFG on 22 August 2011 and she is a member of the NC and RC of HLFG. Ms Lim is also a Director of HLB, a company listed on the Main Market of Bursa Securities and MIMB, a public company.

**MR SAW KOK WEI**

Non-Executive Director/Independent

Mr Saw Kok Wei, aged 48, a Malaysian, holds a B.Sc (Hons) in Accounting and Finance degree from the University of Warwick, United Kingdom. Mr Saw has been with Electrolux Major Appliances – Asia Pacific for seven years since 2004 and is currently the Deputy Head of Strategy, Asia Pacific, based in Singapore. Prior to his current position, Mr Saw was the Chief Financial Officer of Electrolux China, based in Shanghai from 2008 to June 2011 where he was responsible for the finance, IT, legal and supply chain functions. From 2007 to 2008, he was the General Manager of P.T. Electrolux Indonesia, where he was the head of Electrolux's Indonesia sales company and before that from 2004 to 2006, he was the Vice President, Finance & Administration – East Asia. Before joining Electrolux, Mr Saw was with Merck Sharp & Dohme (I.A.) Corp from 2001 to 2003 and Nike Southeast Asia from 1999 to 2001, where he held the position of Finance Director in both companies. Mr Saw was appointed to the Board of HLFG on 22 August 2011 and is a member of the BARMC and NC of HLFG.

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#### **4.6 PROFILES OF THE SENIOR MANAGEMENT OF HLFG AS AT 22 AUGUST 2011**

##### **MR CHOONG YEE HOW**

President & Chief Executive Officer/Non-Independent

Mr Choong Yee How, aged 55, a Malaysian, obtained a Bachelor of Science in Biochemistry (Honours) degree in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. Mr Choong has over 27 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG. Mr Choong was appointed to the Board of HLFG on 1 December 2005. Mr Choong is also a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, HLISB, Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad) and HLIB, all public companies.

##### **MR QUEK KON SEAN**

Executive Director/Non-Independent

Mr Quek Kon Sean, aged 31, a Malaysian, obtained a Bachelor of Science and Master of Science degree in Economics from the London School of Economics and Political Science. In 2002, he joined Goldman Sachs International, London as an Analyst in the Investment Banking Division and in 2003 he joined HSBC, London in Debt Capital Markets. Mr Quek is currently the Executive Director of HLFG. Prior to joining HLFG, Mr Quek was the Management Executive of HL Management Co Sdn Bhd. Mr Quek was appointed to the Board of HLFG on 1 December 2005. Mr Quek is also a Director of HLB and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, a public company.

##### **MR CHEW SEONG AUN**

Chief Financial Officer

Mr Chew Seong Aun, aged 47, a Malaysian, obtained a Bachelor of Science (Eng) in Civil Engineering (Honours) degree in 1986 from Imperial College, University of London and is an ICAEW qualified Chartered Accountant which he obtained subsequently via training and working with KPMG London. He spent 5½ years with KPMG London and then worked with Gulf International Bank in their London and Bahrain offices for approximately 6 years of which his last position was the Head of Financial Audit. Mr Chew then returned to Malaysia working in Citibank's Consumer Business as its Business Controller before being its Consumer CFO. He spent 8 years with Citibank Malaysia. He then spent about a year as a General Manager at Vsource Asia Berhad, a business process outsourcing firm before returning to banking as UOB Malaysia's CFO in September 2005. Shortly after a year, he then joined HLFG in November 2006 as its CFO. Mr Chew has over 26 years of experience in finance and banking.

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**MR WONG LEONG PIN**

Group Chief Information Officer

Mr. Wong Leong Pin, aged 49, a Malaysian, joined HLFGL in March 2011. Mr Wong holds a Bachelor of Science (Honours), majoring in Computing and Information Science and Business Administration from the University of Guelph, Ontario, Canada. He has over 27 years of experience in Information Technology, performing technical, consulting, delivery, account and management roles across a variety of industries, with the last 15 years, the Financial Services Industry.

He has worked in Price Waterhouse, Cadbury Schweppes (Australia), Computer Sciences Corporation (CSC), and Electronic Data Systems (EDS)/ Hewlett Packard (HP). He sat on the local Board of a few of these organisations including a PLC in Malaysia, and another as Country Head.

During his career, Mr Wong successfully led the integration exercise of the Malaysian entities of 2 Global IT organization and led the outsourcing team for 2 of the largest banks in Malaysia in Transformation Programs that included Infrastructure and Applications. Prior to that he was running the Insurance Application Software Business in Asia for CSC where he and his team implemented solutions for Life, General and Group Insurance throughout Asia and made it the leading software for Insurance Administration for Asia.

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#### **4.7 INFORMATION ON HONG LEONG ASSURANCE BERHAD GROUP**

HLA is one of the largest life insurance companies in Malaysia. It is a well-established and respected Malaysian brand offering financial planning and protection solutions to meet the various needs of Malaysians at different cycles of their lives. Commitment to the customer is the key to HLA's success, where service is provided through a large network of branches, agents and brokers throughout the country as well as bancassurance and alternative distribution channels.

HLA began as a general insurance business under the name of Malaysia Pacific Insurance Berhad in 1972. The life insurance business was added into its portfolio a year later. In December 1982, Hong Leong Assurance Sdn Bhd, a composite insurance company was formed eventually acquiring the entire general and life business of Malaysia Pacific Insurance. Today, HLA is a 70%-owned subsidiary of HLA Holdings Sdn Bhd ("**HLAH**"), which is wholly-owned by HLFG, the financial services arm of the Hong Leong Group Malaysia.

Pursuant to a strategic partnership which was completed in October 2010, HLA merged its general insurance business with MSIG Insurance (Malaysia) Bhd ("**MSIM**"). As a consideration for the transfer of HLA's general business to MSIM, new shares equivalent to a 30% equity interest in MSIM were issued to HLAH. Concurrently, Mitsui Sumitomo Insurance Company, Limited acquired a 30% equity interest in HLA. Moving forward, the general insurance business will be provided by MSIM, while the life insurance business will continue to be provided by HLA.

With the strategic partnership, HLA is poised to reach new horizons for its life insurance business. HLA is today one of Malaysia's leading domestic brands for financial planning and protection solutions, specializing in life insurance products and services.

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## 4.8 INFORMATION ON HONG LEONG BANK BERHAD GROUP

### Introduction

HLB was incorporated as Kwong Lee Bank Limited in Malaysia on 26 October 1934 and changed its name to Kwong Lee Bank Berhad on 15 April 1966. In 1982, Kwong Lee Bank Berhad was acquired by MUI Group and on 2 February 1983, HLB changed its name to Malayan United Bank Berhad. Subsequently on 26 June 1989, HLB changed its name to MUI Bank Berhad. In January 1994, Hong Leong Group Malaysia acquired MUI Bank Berhad and HLB assumed its present name on 10 January 1994. In January 2001, HLB merged with Wah Tat Bank Berhad and, HLB's wholly-owned subsidiary, Hong Leong Finance Berhad merged with Credit Corporation (Malaysia) Berhad.

The Singapore branch was established on 2 July 1956 whilst the Hong Kong branch was established on 13 January 2004.

HLB completed the merger of the finance company business of its subsidiary, Hong Leong Finance Berhad, with the commercial banking business of HLB in August 2004.

In mid-2008, HLB became the first Malaysian bank to enter the Chinese banking sector with a 19.99% strategic shareholding in Bank of Chengdu Co., Ltd (“**BOCD**”) in Chengdu, China. BOCD is the platform for HLB to expand its activities in western and central China.

In December 2008, HLB became the first and only Malaysian and Southeast Asian Bank to be granted a licence to incorporate and operate a 100% wholly-owned commercial bank in Vietnam. In July 2009, Hong Leong Bank Vietnam Limited was legally incorporated and operations commenced in October 2009.

In November 2009, HLB entered a joint venture agreement with BOCD to establish a joint-venture company to operate a licensed consumer finance company in Chengdu, China. HLB has a 49% shareholding in the joint-venture company Sichuan Jincheng Consumer Finance Limited Company which was incorporated on 26 February 2010.

On 6 May 2011, HLB completed the acquisition of the entire assets and liabilities of EON Capital Berhad (“**Acquisition**”). On 1 July 2011, the entire business of EON Bank, including all its assets and liabilities, was transferred to HLB in accordance with the Vesting Order granted by the High Court.

### HLB Group

The HLB Group is Malaysia's fourth largest commercial banking group by total assets. The HLB Group's principal business is commercial banking, which consists of personal financial services, corporate and commercial banking and treasury. The HLB Group conducts its commercial banking business in Malaysia, with two overseas branches located in Singapore and Hong Kong, one subsidiary bank in Vietnam and an associate bank and a joint venture consumer finance company in Chengdu, China. The HLB Group is also involved in Islamic banking.

HLB is well recognised regionally and has won many accolades over the years for its brand strength, quality products and services, management and sound business performance. Notable awards which HLB received during 2009 and 2010 include the Asiamoney FX Poll 2009's “Best Domestic Provider of FX Services in Malaysia”, top 10 in Malaysia in Wall Street Journal Asia's “Asia 200 Most Admired Companies”, “Top 5 for Finance — Highest PBT, CAGR, ROE and S/H Returns over 3 years” by The Edge and KPMG's “Shareholder Value Award 2010”. In 2007, 2008 and 2009, HLB was named among



the top 12 most valuable brands in Malaysia in an independent evaluation by Interbrand, with a brand value exceeding RM3 billion.

### **HLB Group Strategy**

The HLB Group's stated vision is to be "an outstanding financial services organisation, highly competitive and profitable, where people make the difference".

The HLB Group's strategic philosophy is underpinned by both its long-term vision and its focus on long-term economic sustainability and value creation. The primary focus of the HLB Group is on scalability, resilience, sustainability, brand recognition, transformational growth and global competitiveness. The HLB Group also premises its business approach on the fundamentals of banking, including strong corporate governance, a well-capitalised balance sheet, strong liquidity, strategic asset liability management, prudent risk management, simple and "back-to-basics" products and services and a quality reputation supported by strong credit ratings. The HLB Group's aim is to leverage these strengths and its commitment to human resources to further increase its productivity, profitability and shareholder value.

### **Prospects of HLB**

HLB has been actively expanding its reach for market share. One of the strategies that HLB has identified to expand its market share is via inorganic growth whereby HLB had recently completed the Acquisition. The Acquisition is intended to create a stronger merged entity with a greater scale and size that is crucial to remain competitive in the fast changing banking and financial services landscape. In addition, the Acquisition is expected to give rise to a combined entity with larger and more diversified funding base offering, amongst others, stronger financial flexibility to support future growth opportunities of the enlarged bank.

Moving forward, HLB will continue to focus in *Embedding Hong Leong Bank in the Region*, in the face of a gradual and uneven global recovery as well as reforms of the financial systems in order to remain relevant. HLB will focus on executing 6 key organic strategies in the near term as follows:

- (i) re-assert its liquidity franchise to build volume for scale and future-proof the competitive viability of HLB's business lines with scale efficiency;
- (ii) focus on the efficiency of delivery, productivity of resources and information technology effectiveness;
- (iii) re-invent the branch banking strategy and deepen embedment and customer relationships;
- (iv) build new segments and fee income;
- (v) support expansion, transformation and growth of our regional platforms to secure future options by building new banks in new regional markets; and
- (vi) deliver strategic human resource effectiveness as a key differentiator.

In summary, the HLB Group strive to continue to meet the challenges associated with the current environment and is proactively addressing them. HLB believes that its prospects remain positive and the HLB Group remains committed to ensuring the relevance of the HLB Group's products and services as well as to continue to evaluate potential opportunities to further expand and grow HLB's business regionally to create sustainable return for its shareholders.

In relation to the recent merger with the EON Bank Group, the HLB Group has also released a Merger Progress and 100-Day Achievement Report, and a copy may similarly be downloaded from [www.hlb.com.my](http://www.hlb.com.my).

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#### **4.9 INFORMATION ON HONG LEONG CAPITAL GROUP**

Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), a public listed company, is the holding company for Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd.

It aims to be the foremost integrated financial services firm offering unrivalled value to our clients. The mission of the group is to achieve the status of being a leading regional financial services institution providing our diversified clients with the full range of value propositions and financial solutions in the areas of investment banking, securities and investment management services.

This mission is undertaken by the two main wholly-owned subsidiaries namely Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd.

Hong Leong Investment Bank Berhad consists of two main pillars namely the Investment Banking Division and the Stockbroking Division.

Investment Banking Division was set up with a core team of experienced professionals specialising in Capital Markets and Treasury products and services offerings. The core activities include debt and equity funding raising services (private debt securities (PDS) issuances, syndicated loans, initial public offerings (IPO), rights issues, restricted issues, special issues and private placements), corporate restructuring, merger & acquisitions, asset and investment valuation, takeovers & privatisations, independent advisory works, debt and equity underwriting, fixed deposits, trading and distribution of fixed income instruments.

Hong Leong Investment Bank also provides a range of broking services for a wide range of clients ranging from institutional to high net worth and retail investors. HLIB has a dedicated client-centric sales team that is committed to providing timely advice and good trade execution. Supported by the research team that is headed by a rated analyst and other professionals who are industry specialists, they strive to deliver ground-breaking insights and a fresh perspective on investing ideas.

High net worth investors can be serviced by a specialized team of Priority Client Brokers to respond to their customized requirements. Other retail investors are supported by remisiers based in 3 locations – KL, PJ and Ipoh. HLIB is proud of its simple and responsive eBroking platform with a dedicated helpdesk and innovative product packages which cater for different market segments.

Facilitating increasing client demands and broadening horizons, HLIB also provide margin financing for risk takers seeking leverage, whilst those looking beyond Malaysia as their geographical scope are able to trade and invest in foreign markets as well. Equity Derivatives serves as the catalyst for product innovation and value-added services by enabling the modification of risk / return profiles to fulfill more sophisticated needs.

Hong Leong Asset Management Bhd is an established asset management company offering a comprehensive range of managed investment solutions across segregated assets and unit trust funds for state governments, insurance companies, endowments, family offices, corporations and high net worth individuals.

Funds managed by Hong Leong Asset Management Bhd which were awarded Standard & Poor Fund Awards Malaysia in 2007 include HLG Bond Fund for the best performing Fixed Income MYR over 1 year and HLG Dana Maa'rof for the best performing Islamic Neutral Fund over 3 years.

#### **4.10 RISK MANAGEMENT**

The Board of Directors recognises its responsibilities for the system of internal controls of HLF Group and for reviewing its adequacy and integrity. Accordingly, the Board has established and maintained a Risk Management Framework appropriate to the operations of HLF Group, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The controls built into the Risk Management Framework of HLF Group are designed to ensure that all relevant and significant risks are identified and managed as part of the risk management process and are not intended to eliminate all risks of failure to achieve business objectives. It only provides a reasonable and not absolute assurance against material misstatements, losses or frauds that may affect HLF Group's financial position or its operations.

##### **The Risk Management Framework**

The Risk Management Framework established by the Board is to assist it in:

- identifying the significant risks faced by HLF Group in the operating environment, as well as evaluating the impact of such risks;
- developing and approving the necessary measures to manage these risks; and
- monitoring the effectiveness of such measures and to develop, approve and monitor any corrective actions as may be deemed necessary.

These processes have been in place throughout the financial year ended 30 June 2010 and have continued up to the date this statement was approved.

The Board has entrusted the BARMC with the responsibility to oversee the implementation of the Risk Management Framework of HLF Group.

A Chief Risk Officer administers the Risk Management Framework of HLF Group. The primary responsibilities of the Chief Risk Officer are:

- periodically evaluate all identified risks for their relevance in the operating environment and inclusion in the Risk Management Framework;
- oversee and monitor the implementation of appropriate systems and controls to manage these risks;
- assess the adequacy of existing action plans and control systems developed to manage these risks;
- monitor the performance of management in executing the action plans and operating the control systems; and
- regularly report to the BARMC on the state of internal controls and the efficacy of management of risks throughout HLF Group.

In discharging the above responsibilities, the Chief Risk Officer is guided by but not limited to the questions raised in the public document known as the "Appendix to the *Statement on Internal Control - Guidance for Directors of Public Listed Companies*".

## **Internal Control Review and Regulatory Compliance Procedures**

The Group Internal Audit Department, under the direction of the BARMC, provides the BARMC and the Board the assurance it requires regarding the adequacy and integrity of the system of internal controls. The Group Internal Audit Department undertakes periodic and systematic reviews of internal control systems and the review of compliance with the business objectives, policies, reporting standards and control procedures of HLFG Group. This is to provide reasonable assurance to the Board on the proper functioning of the Risk Management Framework.

HLFG Group's Compliance Officers monitor daily operations of licensed subsidiaries to ensure compliance with regulatory requirements and internal policies. All breaches and exceptions are brought to the attention of the BARMC and the BARMC is kept informed of the causes and the remedial measures taken.

## **Management and Decision-Making Processes**

The Board has incorporated the Risk Management Framework as an integral component in the management and decision-making process of HLFG Group.

The vision and mission statements of HLFG Group form the basis of medium-term business plans and budgets. The key strategies to achieve these business plans and budgets are approved by the Board. The management performs monthly review to monitor the performance of all operating units against the business plans and budgets. The budget is monitored and major variances are followed-up by the management. These are then reported to the Board on a quarterly basis.

The company's financial system records business transactions to produce quarterly reports that allow management to focus on key areas of concern. The public release of quarterly financial reporting of HLFG Group will only be made after being reviewed by the BARMC and approved by the Board. HLFG Group has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The respective heads of the operating subsidiaries of HLFG Group operate their respective units within the policies, functional, financial and operating reporting standards and control procedures developed by HLFG Group. Such reporting standards and control procedures are supplemented by operating procedures developed by the operating units to suit the regulatory and business environment, in which they operate.

HLFG Group has identified the major risks that has significant impact on its operations, namely; credit risk, market risk, settlement risk, operational risk, and legal and compliance risk. Each operating unit has a number of functional departments and/or units that will be responsible for managing and monitoring these risks through limits, procedures and oversight. Where feasible and necessary, relevant group resources are focused to manage and monitor common risks on an integrated and group-wide basis, using common tools, procedures and control systems as appropriate.

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## SECTION 5.0 INDUSTRY OVERVIEW

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*The following is a summary of the Malaysian economy and its outlook and an overview of certain aspects of the finance sector. However, the following summary has not been verified by the Issuer or any other party and neither the Issuer nor such other party can assure the accuracy and completeness thereof.*

### 5.1 THE MALAYSIAN ECONOMY

The pace of growth of the Malaysian economy moderated in the second quarter of 2011 (4.0%; first quarter of 2011 (“1Q 11”): 4.9%) following a weaker external environment. The overall weakness in the advanced economies and the disruptions in the global manufacturing supply chain stemming from the disaster in Japan, were reflected in the slowdown in the manufacturing sector. Nevertheless, overall growth continued to be underpinned by the sustained expansion of private domestic demand. This was further supported by the strong exports of commodities and resource based products given the favourable regional demand and high commodity prices.

Domestic demand increased by 5.2% (1Q 11: 6.9%), supported mainly by sustained growth in private sector spending. Private consumption increased by 6.4% (1Q 11: 6.7%). Sustained expenditure on emoluments and supplies and services supported the growth in public consumption (4.0%; 1Q 11: 8.9%). Growth in gross fixed capital formation moderated to 3.2% (1Q 11: 6.5%), due mainly to lower public investment. Private capital spending, however, was sustained by expansion in production capacity and investment in new growth areas in the manufacturing sector as well as exploration and development activity in the oil and gas sector. During the quarter, Federal Government development expenditure was lower, and was focussed on the education, transportation and trade and industry sectors.

On the supply side, growth in most economic sectors moderated during the quarter. The manufacturing sector slowed to 2.1% (1Q 11: 5.5%) due mainly to the weaker global environment and the production disruptions following the disaster in Japan in March. Nevertheless, the services sector was sustained at 6.3% (1Q 11: 6.4%), supported by continued domestic private sector spending. The agriculture sector turned around to expand by 6.9% (1Q 11: -0.2%), due mainly to higher output of both crude palm oil and natural rubber following an improvement in weather conditions. Meanwhile, growth in the construction sector moderated to 0.6% (1Q 11: 3.8%) due to delays in the implementation of infrastructure projects. The mining sector continued to contract (-9.2%; 1Q 11: -4.2%), reflecting the lower production of crude oil following the shutdown of production facilities for maintenance.

*(Source: BNM quarterly bulletin for second quarter of 2011)*

### 5.2 OUTLOOK FOR THE MALAYSIAN ECONOMY

While the moderation in the global growth in the second quarter of 2011 was mainly due to temporary factors arising from global supply chain disruptions and high commodity prices, fiscal and debt conditions in several of the advanced economies had also contributed to increased uncertainties and heightened financial market volatilities which affected overall confidence. Going forward, global growth is expected to remain positive, supported by economic activity in most of the emerging economies and the improvement in the global supply chain. The overall global recovery, however, will continue to be constrained by the structural weakness in the advanced economies. In addition, prolonged uncertainty in the financial markets could also weigh down on real economic activity.

In Malaysia, while the global supply disruptions affected production and trade in the second quarter of 2011, the underlying strength of the domestic economy remained intact as domestic demand continued to support growth. Going forward, the downside risks to external demand have increased following

heightened uncertainties in the external environment. Nevertheless, domestic demand is expected to remain resilient and support growth amidst sustained private consumption, strong private investment and faster pace of implementation of public sector projects in the second half of the year.

*(Source: BNM quarterly bulletin for second quarter of 2011)*

### **5.3 OVERVIEW OF THE FINANCIAL SECTOR**

The finance and insurance sub-sector expanded by 5.6% in the second quarter of 2011 (1Q 11: 6.8%), led by the continued growth in net interest and fee-based income arising from favourable loan growth. Financial system stability was maintained throughout the second quarter of 2011. This was underpinned by a sound financial system and institutions and orderly financial markets that continue to support efficient financial intermediation and sustained public confidence in the financial system.

Liquidity remained ample to meet the demand for deposit withdrawals and other liquidity obligations. The overall liquidity buffer of the banking system remained at comfortable levels and was well above the regulatory requirements. The loan-to-deposit ratio was almost unchanged at 81.8% (1Q 11: 82%).

Financing conditions remained supportive of economic activity during the quarter, with financing continuing to remain available to all segments of the economy. Total gross financing raised by the private sector through the banking system and the capital market increased to RM225.6 billion (1Q 11: RM202 billion). On a net basis, banking system loans and private debt securities outstanding rose by an annual rate of 12.9% as at end-June (end-March 2011: 12.1%). The major loan indicators also remained strong in the second quarter of 2011.

The domestic banking system remained well-capitalised with the core capital ratio and risk-weighted capital ratio remaining strong at 12.3% and 13.9% respectively. Financial buffers were sustained at a high level in excess of RM57 billion to absorb unexpected losses from any shocks while preserving the ability of the banking system to continue financing economic activity. The quality of capital continued to be supported by the high proportion of Tier 1 capital with common equity and reserves continuing to account for the bulk of banking sector capital funds.

*(Source: BNM quarterly bulletin for second quarter of 2011)*

### **5.4 INDUSTRY OUTLOOK ON CORE BUSINESS OF HLFG**

The continued resilience of the banking sector was supported by strong capital, stable asset quality and ample liquidity. To further enhance the development and competitiveness of the financial sector, five new commercial banking licences were issued in June 2010 following the liberalisation measures announced in April 2009. These banks will contribute to the diversity of the financial services industry and support new areas of growth, including green technology as well as facilitate international trade, attract investments into Malaysia and create greater employment opportunities in the financial sector.

On 18 August 2010, BNM further eased foreign exchange rules to allow the ringgit for offshore settlement of trade in goods and services as well as remove the cap for exporters to hedge foreign exchange risks. This will facilitate the management of currency mismatches, reduce conversion costs as well as enable more effective risk management.

In the capital market, the SC issued a stockbroking licence to further enhance greater intermediation of investment inflows. Malaysia is also recognised as an approved investment destination by China under the Qualified Domestic Institutional Investor (QDII) scheme for Chinese fund management and securities

companies to invest in Malaysian securities. The scheme will also enhance Malaysia's attraction as a capital-raising platform, particularly for China-based companies as well as provides opportunity for Malaysian capital market intermediaries to access China's market.

*(Source: Economic Report 2010/2011)*

#### **a) Banking Business**

The banking system remained sturdy, backed by strong capitalisation, sustained asset quality and high liquidity during the first seven months of 2010. The banks pro-actively embarked on measures to further strengthen the capital base since 2008, in anticipation of the more challenging conditions. As at end-July 2010, the RWCR and CCR of the banking system were at 15.1% and 13.3% (end-2009: 15.4%; 13.8%), respectively. Approximately 75% of total capital was in the form of Tier-1, comprising mainly paid-up capital and reserves.

The banking system posted pre-tax profits of RM13.4 billion during the first seven months of 2010 (January – July 2009: RM8.4 billion), contributed by higher net interest and fee-based income as well as healthy gains from treasury activities. The asset quality of the banking system was sustained despite the challenging environment. NPLs inclusive of impaired loans stood at RM29.9 billion (end-2009: RM28.7 billion) and net NPLs ratio at 2.1% as at end-July 2010 (end-2009: 1.8%) while the overall loan loss coverage ratio remained above 90%.

In terms of NPLs by sector, households accounted for the highest NPLs at RM11.3 billion or 38.3% of total gross NPLs as at end-July 2010 (end-2009: RM13.3 billion; 49.6%). This was followed by the manufacturing (RM5.4 billion; 18.2%) and construction sectors (RM3.2 billion; 11.0%).

The Islamic banking system, including the development financial institutions (DFIs) continued to expand in terms of market share of assets, deposits and financing in the first seven months of 2010. Total assets increased 20.8% to RM337.6 billion as at end-July 2010 and accounted for 20.1% of total banking system assets (end-2009: 20.8%; RM303.3 billion; 19.6%). Deposits expanded 20.6% to RM263.4 billion, accounting for 21.6% of total banking deposits (end-2009: 21.4%; RM 236.0 billion; 20.7%). Financing also rose markedly by 25.1% to RM211.6 billion, contributing 21.4% to total banking system loans (end-2009: 24.1%; RM186.8 billion; 21.6%).

A significant portion of Islamic financing was to households with loans amounting to RM134.4 billion or 63.5% of total financing as at end-July 2010 (end-2009: 5.9%; RM19.4 billion). The manufacturing sector accounted for 6.1% of total financing valued at RM12.9 billion while the transport, storage and communication sector amounted to RM9.8 billion or 4.6%. The DFIs contributed 27.1% of total Islamic financing or RM57.3 billion.

*(Source: Economic Report 2010/2011)*

#### **b) Insurance and Takaful**

The insurance industry continued to record positive growth in the first seven months of 2010 with improved premium revenue and sufficient capital buffers. The capital adequacy ratio stabilised to 223.5% as at end-June 2010 with the capital buffer at RM18.5 billion (end-2009: 230.0%; RM18.6 billion). This was mainly due to capital raising exercises by several general and life insurance companies. Retained profits also improved to RM7.5 billion in the first seven months (January – July 2009: RM6.8 billion), resulting in a higher composition of Tier-1 capital.



For the life insurance sector, excess of income over outgo improved 10.3% to RM6.6 billion (January – July 2009: RM6.0 billion), mainly due to higher premium income and lower capital losses on investments in equities.

For the general insurance sector, operating profits expanded to RM888.9 million (January – July 2009: RM851.3 million) with improved underwriting profits of RM349.2 million (January – July 2009: RM246.3 million). Gross direct premiums rose 9.3% to RM7.8 billion (January – July 2009: 5.6%; RM7.1 billion). The motor and fire segments accounted for 62.2% of total business (January – July 2009: 60.9%). On the expense side, the claims performance remained relatively stable recording a loss ratio of 63.2% (July 2009: 61.3%), with losses mainly concentrated in the marine, aviation and transit as well as motor comprehensive segments.

Assets of the insurance industry recorded robust growth to reach RM154.0 billion as at end-July 2010 (end-2009: RM150.4 billion). Liquid assets totalled RM39.5 billion or 25.6% of total assets, sufficient to cover outstanding and future obligations. Liquid assets in general business stood at RM9.5 billion against total outstanding claims of RM7.2 billion as at end-July 2010 (end-2009: RM12.3 billion). Asset allocation remained concentrated on corporate debt securities and Government securities, accounting for 53.3% of total assets (end-2009: 54.0%). Life insurance business continued to account for a significant portion of the industry's total assets with a share of 86.3%.

Assets of the takaful industry expanded 19.6% to RM13.9 billion, accounting for 9.1% of total insurance industry assets as at end-July 2010 (end-2009: 17.1%; RM12.4 billion; 7.7%). This was attributed to the increase in family funds, which comprised 84.6% of total takaful assets. Net contributions for family and general takaful recorded growth of 23.8% to RM2.2 billion (January – July 2009: 23.7%; RM1.7 billion).

New business contributions for family takaful expanded 25.8% to RM1.6 billion (January – July 2009: 7.9%; RM1.3 billion), mainly attributed to the increase in ordinary family business, which represented 85.9% of total new business contributions. The excess of income over outgo for family takaful declined 2.3% to RM975.3 million (January – July 2009: 14.0%; RM998.6 million), mainly due to the increase in net certificate benefits. Market penetration rate of family takaful improved further to 10.3% as at end-June 2010 (end-2009: 9.1%), reflecting increased market awareness. On 1 September 2010, four family takaful licences were approved to further enhance the development of the family takaful industry in Malaysia besides reinforcing Malaysia's position as an international Islamic financial hub.

Gross direct contributions for general takaful increased 27.6% to RM776.7 million (January – July 2009: 26.2%; RM608.6 million), mainly due to higher contributions from aviation, cargo, marine hull, offshore oil-related and fire business. Similarly, net contributions also rose, translating to an improved operating profit of RM152.3 million during the period (January – July 2009: RM129.0 million).

*(Source: Economic Report 2010/2011)*

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## **SECTION 6.0 FUTURE PLANS AND PROSPECTS**

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In moving towards becoming a leader in the financial services industry, the HLFG Group is actively promoting its products and services, with a view towards consistently meeting if not exceeding its customers' financial and investment needs in these challenging times. The HLFG Group also recognizes the need to strengthen its risk management systems and towards that end has embarked on a conscious effort to monitor, measure and manage the risk profile of the HLFG Group by investing in technology and know how that would give the HLFG Group an edge in more effectively managing the volatility that is associated with its operations.

At the same time, HLB, the banking arm of HLFG aims to maintain its position as one of the country's leading financial institutions. In order to achieve this goal, HLB continues to adopt an active growth strategy that would help to enhance its distribution channels, strengthen its credit assessment capabilities, boost its pricing competitiveness as well as diversify its income base.

As part of its goal toward attaining a consistently higher return on equity, HLFG is actively seeking ways and means to diversify its income base. Towards that end, HLFG will continue to explore strategic investments, which naturally fit with the HLFG Group's current businesses. The strategic investments that the HLFG Group intends to take will include but is not limited to minority share placements in public listed companies, pre-IPO share placements as well as private equity investments.

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## **SECTION 7.0 OTHER INFORMATION**

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### **7.1 MATERIAL LITIGATION**

As at 22 August 2011, HLFG is not engaged in any material litigation, claims and arbitration, either as plaintiff or defendant, and the Directors do not have any knowledge of any proceeding, pending or threatened, against HLFG or of any other facts likely to give rise to any proceeding which may materially or adversely affect the financial position or business of HLFG.

### **7.2 MATERIAL CONTRACTS OUTSIDE ORDINARY COURSE OF BUSINESS**

As at 22 August 2011 to the best knowledge of the Board, HLFG is not engaged in any contracts outside its ordinary course of business which may materially affect the financial position or business of HLFG.

### **7.3 RELATED PARTY TRANSACTIONS**

Save as disclosed in notes 48 of the Audited Financial Statements for the FYE 30 June 2011 in Appendix 2, the Board has confirmed that as at 30 June 2011 there are no other significant related party transactions. The Board is of the opinion that those transactions have been entered into in the normal course of business and established on commercial terms.

### **7.4 RIGHTS ISSUE AND UNDERTAKING**

HLB is currently undertaking a renounceable rights issue of up to 299,802,066 new ordinary shares of RM1.00 each in HLB ("**Rights Issue**"). In relation to the Rights Issue, HLFG had on 15 June 2011 provided an irrevocable written undertaking to subscribe for its entitlement to the new HLB shares to be issued under the Rights Issue ("**Rights Shares**") in full. As at 22 August 2011, HLFG holds directly 952,044,500 HLB Shares, representing 63.51% equity interest in HLB.

Based on the above, HLFG's entitlement under the Rights Issue is 190,408,900 Rights Shares representing approximately 63.51% of the total Rights Issue size and HLFG's subscription amount will be approximately RM1,647.0 million.

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## **SECTION 8.0 CONFLICT OF INTEREST**

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Under the Proposal, HLIB has been appointed as the principal adviser, lead arranger, facility agent and the issuing agent for the Master Programme. In view that HLIB is also a subsidiary company of the Issuer, there may be a potential conflict of interest on the part of HLIB in terms of its duties owed to the potential investors for the Master Programme on one hand and its relationship to the Issuer on the other.

HLIB has considered the factors involved and believes that objectivity and independence in carrying out its role has been/will be maintained at all times for reasons including the following:-

- i. HLIB is a licensed investment bank and its appointment as principal adviser, lead arranger, facility agent and the issuing agent for the Master Programme is in the ordinary course of its business;
- ii. The conduct of HLIB is regulated strictly by BAFIA and CMSA and by its own internal controls and checks;
- iii. The role of HLIB as principal adviser, lead arranger, facility agent and the issuing agent for the Master Programme will be governed by the relevant agreements and documents which set out the rights, duties and responsibilities of the principal adviser, lead arranger, facility agent and the issuing agent for the Master Programme;
- iv. Save for the professional fees charged in relation to its role as the principal adviser, lead arranger, facility agent and the issuing agent for the Master Programme, HLIB will not be deriving any monetary benefit from the Master Programme outside the aforesaid capacity.

In order to further mitigate or address any such potential conflict of interest, the following measures have been/will be taken:-

- (i) the potential conflict of interest situation has been brought to the attention of the Board and it is hence fully informed and aware of and is agreeable to proceed with the Master Programme;
- (ii) the potential conflict of interest situation is disclosed in this Information Memorandum; and
- (iii) Messrs Zul Rafique & partners acting as the independent legal counsel has been appointed to conduct a legal due diligence inquiry on the Issuer.

The Board of Directors of the Issuer are fully informed and acknowledged that there may be a potential conflict of interest on the part of HLIB and in view of the mitigating measures undertaken by HLIB as set out above, they are agreeable to proceed with the Master Programme notwithstanding the potential conflict of interest.

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## **Appendix 1**

### **Audited Financial Statements of the Issuer for the FYE 30 June 2010**

The information can be found in the accompanying Compact Disc.

## **Appendix 2**

### **Audited Financial Statements of the Issuer for the FYE 30 June 2011**

The information can be found in the accompanying Compact Disc.

### **Appendix 3**

#### **Final Rating Letter from MARC dated 22 September 2011**



**MALAYSIAN RATING CORPORATION BERHAD** (364803 V)

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Malaysia. Website : www.marc.com.my

22 September 2011

**Mr Chew Seong Aun**  
Chief Financial Officer  
Hong Leong Financial Group Berhad  
Level 8, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur

Dear Sir,

**FINAL RATINGS FOR HONG LEONG FINANCIAL GROUP BERHAD'S COMMERCIAL  
PAPER AND MEDIUM TERM NOTES PROGRAMME OF UP TO RM1.8 BILLION**

Pursuant to our appointment, we are pleased to inform you that MARC has assigned final ratings of **MARC-1/AA** to Hong Leong Financial Group Berhad's proposed Commercial Paper and Medium Term Notes Programme of up to RM1.8 billion. The outlook on the long-term rating is **stable**.

Please do not hesitate to contact Ahmad Rizal Farid or Anandakumar Jegarasasingam at MARC should you require further clarification.

Yours faithfully,  
for **MALAYSIAN RATING CORPORATION BERHAD**

**MOHD RAZLAN MOHAMED**  
Chief Executive Officer



**CLARITY AND INTEGRITY**