

L A P O R A N
T A H U N A N

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A N N U A L
R E P O R T

Hong Leong Bank Berhad Laporan Tahunan 2004 Annual Report

our vision:

AN **OUTSTANDING**
FINANCIAL SERVICES ORGANISATION
HIGHLY COMPETITIVE AND PROFITABLE

**WHERE PEOPLE MAKE
THE DIFFERENCE**

Transforming **Forward**



WISMA HONG LEONG

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Service
Excellence



corporate INFORMATION

DIRECTORS

YBhg Tan Sri Quek Leng Chan
(Chairman)

Ms Yvonne Chia
*(Group Managing Director/
Chief Executive Officer)*

En Zulkiflee Hashim
(Executive Director)

Mr Chew Peng Cheng

Mr Kwek Leng Hai

Mr Kwek Leng Seng

YBhg Datuk Dr Hussein Awang

Mr Tan Keok Yin

YBhg Datuk Mohamed Nazim
Bin Abdul Razak

Mr Tsui King Chung, David

SECRETARY

Ms Loh Bee Hong

AUDITORS

Messrs PricewaterhouseCoopers
Chartered Accountants
11th Floor, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur

REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
(formerly known as Hong Leong Nominees Sendirian Berhad)
Level 5, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-21641818 Fax : 03-21643703

REGISTERED OFFICE

Level 6, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-21648228 Fax : 03-21642503

**directors'** PROFILE**YBHG TAN SRI QUEK LENG CHAN***Chairman/Non-Independent*

Aged 61, Tan Sri Quek Leng Chan, 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 Hong Leong Bank Berhad ("HLB") and was appointed to the Board of Directors ("Board") of HLB on 3 January 1994. He is the Chairman of the Executive Share Option Scheme ("ESOS") Committee of HLB and a member of the Executive Committee, Board Credit Committee ("BCC"), Remuneration Committee and Nomination Committee of HLB.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad ("HLCM"), Executive Chairman of Hong Leong Industries Berhad ("HLI"), Hong Leong Credit Berhad ("HLC"), Hong Leong Properties Berhad ("HLPB"), Hume Industries (Malaysia) Berhad ("HIMB"), Narra Industries Berhad (formerly known as Hume Cemboard Berhad), Camerlin Group Berhad and O.Y.L. Industries Bhd ("OYL") and Chairman of HLG Capital Berhad ("HLGC"), Hong Leong Finance Berhad ("HLF") and Hong Leong Assurance Berhad ("HLA").

Tan Sri Quek attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

He has no conflict of interest with HLB and has no conviction for offences within the past ten years.

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directors' PROFILE (continued)

YVONNE CHIA

Group Managing Director/Chief Executive Officer/Non-Independent

Aged 51, Ms Yvonne Chia, a Malaysian, holds a Bachelor of Economics from the University of Malaya in 1976. She started her career in banking with Bank of America and held various positions in Hong Kong, Manila and Kuala Lumpur between 1976 to 1993; the last position being Vice President & Country Head of Marketing. In March 1994, Ms Chia joined RHB Bank Berhad as General Manager and went on to become Chief Executive Officer/Managing Director of RHB Bank Berhad, a position she held until March 2002. She was made a Fellow of Institute of Bankers Malaysia in April 2002 and is also a Certified Risk Professional (CRP) with BAI.

Ms Chia was appointed as Executive Director of HLB on 17 March 2003 and had been re-designated as Group Managing Director/Chief Executive Officer of HLB on 10 November 2003. She is also a member of the Executive Committee, ESOS Committee, Share Transfer Committee and BCC of HLB.

Ms Chia attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Ms Chia is a Director of HLC, a public listed company. Ms Chia is also a Director of Malaysian External Trade Development Corporation (MATRADE) and Cagamas Berhad, a public company.

Ms Chia has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

ZULKIFLEE HASHIM

Executive Director/Non-Independent

Aged 45, Encik Zulkiflee Hashim, a Malaysian, holds a Diploma in Credit Management. He started his career in the banking sector with Citibank NA and was its Vice President in 1990. From December 1991 to 1997, he was with Deutsche Bank Malaysia and was its Deputy Managing Director responsible for Corporate Banking, International Trade Finance, Operations and Transaction Banking Services Department. Encik Zulkiflee was appointed Executive Director of HLB on 30 July 1998 and is also a member of the Share Transfer Committee, Executive Committee and BCC of HLB.

Encik Zulkiflee is a Director of WTB Corporation Berhad and HLF Credit (Perak) Berhad, both public companies.

Encik Zulkiflee attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Encik Zulkiflee has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.



directors' PROFILE (continued)

CHEW PENG CHENG

Non-Executive Director/Independent

Aged 63, Mr Chew Peng Cheng, a Malaysian, qualified as a Barrister-at-Law from the Inner Temple, London. He was a Deputy Public Prosecutor, State Attorney General Chamber of Kuching from 1964 to 1965. Thereafter, he practised at Battenberg & Talma between 1965 to 1974. In 1966, he joined Wah Tat Bank Berhad (now known as WTB Corporation Berhad) ("WTB") as a Director/Secretary and was promoted to Managing Director/Chief Executive Director in 1975. He resigned from WTB on the completion of the acquisition of WTB by HLB and joined HLB as Executive Director on 13 June 2001. Upon completion of his employment contract with HLB, Mr Chew became a Non-Executive Director of HLB. He holds directorship in Chiang Chuan Berhad and several private limited companies.

Mr Chew is also a member of the Remuneration Committee and Nomination Committee of HLB.

Mr Chew attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Mr Chew has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

KWEK LENG HAI

Non-Executive Director/Non-independent

Aged 51, Mr Kwek Leng Hai, a Singaporean, is a qualified Chartered Accountant. He was the Managing Director of HLC from 1979 to 1982 and HLI from 1982 to 1985. In 1985, he was appointed as Chief Executive of Dao Heng Bank Limited, Hong Kong, a position he held till June 2001. At the same time, Mr Kwek was the Chief Executive of Overseas Trust Bank Limited, Hong Kong between 1993 and 2001 and the Managing Director of Guoco Group Limited ("GGL"), Hong Kong from 1992 to 1996. Presently, he is the President and Chief Executive Officer of GGL.

Mr Kwek was appointed to the Board of HLB on 3 January 1994.

He attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Mr Kwek is also a Director of HLF and HLCM, both public companies.

Mr Kwek has no conflict of interest with HLB and has no conviction for offences within the past ten years.

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directors' PROFILE (continued)

KWEK LENG SENG

Non-Executive Director/Non-Independent

Aged 46, Mr Kwek Leng Seng, a Singaporean, holds an Honours Degree in Law from the University of Buckingham, London. He is currently the Group Managing Director of HLPB, a position he held since end 1995. He joined Hong Leong Group Malaysia in 1987 as the Claims Manager and Director of HLA. Between 1990 to mid 1994, he assumed directorship and managerial positions in various subsidiaries of HLPB. In mid 1994, he became the Managing Director of HLG Securities Sdn Bhd and held the position until October 1995.

Mr Kwek was appointed to the Board of HLB on 3 January 1994 and is a member of the Nomination Committee of HLB.

He attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Tan Sri Quek Leng Chan, Mr Kwek Leng Hai, Mr Kwek Leng Seng and Mr Quek Leng Chye, a deemed major shareholder of HLB, are brothers. Mr Kwek has no conflict of interest with HLB and has no conviction for offences within the past ten years.

YBHg DATUK DR HUSSEIN AWANG

Non-Executive Director/Independent

Aged 64, Datuk Dr Hussein Awang, a Malaysian, obtained a Bachelor of Medicine and Bachelor of Surgery Degree from the University of Melbourne in 1964. He was made a Fellow of the Royal Australasian College of Surgeons in 1972. YBhg Datuk is presently the Consultant Urological Surgeon at Tawakal Specialist Centre, Kuala Lumpur, a position he had held since May 1984. He was the Senior Consultant Urological Surgeon and Head of Department of Urology, General Hospital, Kuala Lumpur from 1976 to May 1984. He was also Honorary Professor of Surgery (Urology), Department of Surgery, University Kebangsaan Malaysia, Kuala Lumpur from 1978 to May 1984. YBhg Datuk is a Foundation Fellow of the Academy of Science Malaysia.

YBhg Datuk was appointed as a Board and Board Audit & Risk Management Committee ("BARMC") member of HLB on 18 August 1994. He is also the Chairman of the Nomination Committee of HLB.

His directorships in other public companies include KPJ Healthcare Bhd, HLA and Tasek Corporation Berhad of which he is the Chairman.

YBhg Datuk attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

YBhg Datuk has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

**directors'** PROFILE (continued)**TAN KEOK YIN***Non-Executive Director/Independent*

Aged 60, Mr Tan Keok Yin, a Malaysian, graduated with a Bachelor of Arts (Honours) degree in Economics from the University of Malaya in 1966. He also completed an Executive Program in Management at the University of California, Berkeley in 1984 and a Program in International Boards and Directors at the Swedish Academy of Directors, Stockholm in 1995. He started his career with Bank Negara Malaysia ("BNM") in 1966 and served in various capacities in the Economics and Investments Departments and the Penang Branch of BNM. In 1977, he joined the Federation of Malaysian Manufacturers ("FMM") as Deputy Director and was appointed CEO in 1981 till 1999. As FMM CEO, he represented the organisation on various Government boards and committees and participated actively as speaker and panelist at the World Economic Forum, ASEAN trade and industrial co-operation regional meetings and other international business forums. He also served as a Management Board member of EAN International located in Brussels, which oversees the world-wide commercial usage of the EAN - UCC bar codes and product numbering system.

Mr Tan was appointed to the Board of HLB on 26 August 1994. He is the Chairman of the BARMC and Remuneration Committee of HLB and is a member of the Nomination Committee of HLB. His other directorships are as follows :-

- Independent Non-Executive Director and BARMC member of Malaysian Pacific Industries Berhad, a public listed company.
- Independent Non-Executive Director and BARMC member of HLPB.
- Independent Non-Executive Director and BARMC member of HLA.
- Independent Non-Executive Director of HLF.

Mr Tan attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Mr Tan has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for any offences within the past ten years.

**directors'** PROFILE (continued)**DATUK MOHAMED NAZIM BIN ABDUL RAZAK***Non-Executive Director/Independent*

Aged 42, Datuk Mohamed Nazim Bin Abdul Razak, a Malaysian, an architect by profession, graduated from the Architectural Association, School of Architecture, London. He initially served with YRM Architects in London, a multi-disciplinary building design consultancy and has more than 16 years experience in the architectural field, 13 of which were in Kuala Lumpur. Besides being the Managing Director of NR Associates Sdn Bhd, he is also the Chairman of Bandar Tasik Semenyih Sdn Bhd, a property developer in the Klang Valley.

Datuk Mohamed Nazim was appointed as Non-Executive Independent member to the Board and BARMC of HLB on 30 June 2003.

He attended all the nine Board Meetings of HLB held during the financial year ended 30 June 2004.

Datuk Mohamed Nazim is also a Director of OYL, a public listed company.

Datuk Mohamed Nazim has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

TSUI KING CHUNG, DAVID*Non-Executive Director/Non-Independent*

Aged 57, Mr Tsui King Chung, David, a British, graduated with Hong Kong University Matriculation "A" Level. He joined the banking industry since 1967 and was involved in the area of information services. Mr Tsui held various senior positions in Chase Manhattan Bank from July 1978 to August 1996. He is currently the President and Chief Executive Officer of HLC. Prior to joining HLC, Mr Tsui was the Chief Information Officer of Dao Heng Bank Group Limited (now known as DBS Bank (HK) Ltd), a position he has held since 1996.

Mr Tsui was appointed to the Board of HLB on 20 July 2004 and is a member of the BCC of HLB.

He is also a Director of HLC and HLGC, both public listed companies, and HLA, a public company.

Mr Tsui has no family relationship with other Directors or major shareholders of HLB, has no conflict of interest with HLB and has no conviction for offences within the past ten years.

ATM

 **Hong Leong Bank**

24 HOURS HOTLINE

Hong Leong Bank ATM
Tel : 03-2164 2754

Hong Leong Bank
Credit Card Centre
Tel : 03-7626 8899



RECEIPT

CARD

CASH

New
Reach





board audit &

RISK MANAGEMENT COMMITTEE REPORT

CONSTITUTION

The Board Audit Committee of Hong Leong Bank Berhad ("HLB" or "the Bank") has been established since 18 August 1994 and was re-designated as the Board Audit & Risk Management Committee ("BARMC") on 10 January 2002.

COMPOSITION

Mr Tan Keok Yin

(Chairman, Independent Non-Executive Director)

YBhg Datuk Dr Hussein Awang

(Independent Non-Executive Director)

YBhg Datuk Mohamed Nazim Bin Abdul Razak

(Independent Non-Executive Director)

SECRETARY

The Secretary to the BARMC is Mr Joji Lim Chee Hong who is the Chief Internal Auditor ("CIA") of HLB.

TERMS OF REFERENCE ("TOR")

- To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To consider the provision of non-audit services by the external auditors.
- To review the assistance given by the officers of HLB and its subsidiaries ("Group") to the external auditors.

- To review the quarterly reports and annual financial statements of the Bank and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions and resources of the internal audit department.
- To review the report and findings of the internal audit department including any findings of internal investigations and the management's response thereto.
- To review and report to the Board measures taken to :-
 - (a) Identify and examine principal risks faced by the Bank.
 - (b) Implement appropriate systems and internal controls to manage these risks.
- To evaluate and recommend to the Board, risk management policies and strategies proposed by management.
- To oversee and monitor implementation of the Risk Management framework and activities adopted by the Bank.
- To review any related party transactions that may arise within the Bank or the Group.
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the CIA as per Bank Negara Malaysia GP10.
- Other functions as may be agreed to by the BARMC and the Board.



board audit &

RISK MANAGEMENT COMMITTEE REPORT (continued)

AUTHORITY

The BARMC is authorised by the Board to review any activity of the Group within its TOR. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the BARMC.

The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The BARMC meets at least nine (9) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The head of finance and internal audit divisions, the Chief Risk Officer and external auditors are invited to attend BARMC meetings. At least once a year, the BARMC will have a separate session with the external auditors without the presence of Executive Directors.

Two (2) members of the BARMC, who shall be independent and non-executive, shall constitute a quorum.

After each BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

ACTIVITIES

The BARMC carried out its duties in accordance with its TOR.

The BARMC met eleven (11) times during the financial year ended 30 June 2004. Mr Tan Keok Yin and YBhg

Datuk Dr Hussein Awang attended all the meetings held during the financial year while YBhg Datuk Mohamed Nazim Bin Abdul Razak attended ten (10) meetings.

The BARMC reviewed the quarterly reports and annual financial statements of the Group. The BARMC met with the external auditors and discussed the nature and scope of the audit, considered significant changes in accounting and auditing issues, reviewed the management letter and management's response, examined pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards. The BARMC also reviewed the internal auditor's audit findings and recommendations as well as Bank Negara Malaysia's Examination Reports on the Bank Group.

In addition, the BARMC reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.

The BARMC reviewed various related party transactions carried out by the Group.

The BARMC also reviewed and approved the remuneration of the CIA and staff of the Internal Audit Division of HLB during the period under review.

INTERNAL AUDIT

During the financial year ended 30 June 2004, the internal audit department carried out its duties covering audit on operations, information technology system, credit, head office, branches, loan centre, business centre, mortgage sales centre, hire purchase centre, investigation and other assignments as directed.



corporate governance & INTERNAL CONTROL

"Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

Finance Committee on Corporate Governance

The Board of Directors ("Board") has reviewed the manner in which the Malaysian Code on Corporate Governance ("the Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the Best Practices set out in Part 2 of the Code except where otherwise stated.

A) DIRECTORS

1. The Board

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference to assist in the discharge of this responsibility.

2. Board Balance

The Board comprises ten (10) directors, eight (8) of whom are non-executive. Of the non-executive directors, four (4) are independent. The profiles of the members of the Board are provided in the Annual Report.

The Board is of the view that the current Board composition fairly reflects the investment of shareholders in the Bank.

The Board met nine (9) times during the financial year ended 30 June 2004.

The Board has identified Mr Tan Keok Yin, the Chairman of the Board Audit & Risk Management Committee ("BARMC"), as the Independent Non-Executive Director of the Board to whom concerns may be conveyed, who would bring the same to the attention of the Board.

3. Supply of Information

All Board members are supplied with information on a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate

issues, performances of the Bank and of the Group and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as to independent professional advice, including the internal auditors.

4. Appointments to the Board

The Nomination Committee was established on 17 June 2003 and has been reconstituted as follows:-

- YBhg Datuk Dr Hussein Awang
(Chairman, Independent Non-Executive Director)
- YBhg Tan Sri Quek Leng Chan
(Non-Independent Non-Executive Director)
- Mr Chew Peng Cheng
(Independent Non-Executive Director)
- Mr Tan Keok Yin
(Independent Non-Executive Director)
- Mr Kwek Leng Seng
(Non-Independent Non-Executive Director)
(Appointed on 14 January 2004)
- YBhg Datuk Roger Tan Kim Hock
(Non-Independent Non-Executive Director)
(Resigned on 14 January 2004)

The Nomination Committee's terms of reference are as follows:-

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.



corporate governance &

INTERNAL CONTROL (continued)

A) DIRECTORS (CONTINUED)

4. Appointments to the Board (continued)

- Review and recommend to the Board all Board appointments and re-appointments and removals including of the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual Director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate continuous training programme.

5. Re-election

All Directors are required to submit themselves for re-election every three (3) years.

B) DIRECTORS' REMUNERATION

The Remuneration Committee was established on 17 June 2003 with the following members:-

- Mr Tan Keok Yin
(Chairman, Independent Non-Executive Director)
- YBhg Tan Sri Quek Leng Chan
(Non-Independent Non-Executive Director)
- Mr Chew Peng Cheng
(Independent Non-Executive Director)

3. Disclosure

The aggregate remuneration of Directors (including those who have resigned during the year) for the financial year ended 30 June 2004 is as follows:-

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	104,887	2,744,535	2,849,422
Non-Executive Directors	570,938	-	570,938

The Remuneration Committee's terms of reference are as follows:

- Recommend to the Board the framework governing the remuneration of the:
 - * Directors;
 - * Chief Executive Officer; and
 - * key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

1. Level and make-up of Remuneration

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmark to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

For Non-Executive Directors, the level of remuneration reflects the level of responsibilities undertaken by them.

2. Procedure

The remuneration packages of all executives of the Group including Executive Directors are laid out in the Group's Human Resources Manual, which is reviewed from time to time to align with market/industry practices.

The fees of Directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Bank at its Annual General Meeting.



corporate governance &

INTERNAL CONTROL (continued)

B) DIRECTORS' REMUNERATION (CONTINUED)

3. Disclosure (continued)

The number of Directors whose remuneration fall into the following bands is as follows:-

Range of Remuneration (RM)	Executive	Non-Executive
50,000 and below	-	2
50,001 - 100,000	-	4
100,001 - 150,000	-	2
150,001 - 650,000	-	-
650,001 - 700,000	1	-
700,001 - 800,000	-	-
800,001 - 850,000	1	-
850,001 - 1,350,000	-	-
1,350,001 - 1,400,000	1	-

C) SHAREHOLDERS

1. Dialogue between Companies and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the annual reports, circulars to shareholders and quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

2. Annual General Meeting ("AGM")

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions.

D) ACCOUNTABILITY AND AUDIT

The Board Audit Committee was established on 18 August 1994 and re-designated to BARMC on 10 January 2002. The financial reporting and internal control system of the Group is overseen by the BARMC, which comprises all Non-Executive Directors. The primary responsibilities of the BARMC are set out in the BARMC Report.

The BARMC met eleven (11) times during the financial year ended 30 June 2004. Details of attendance of the committee members are set out in the BARMC Report appearing on pages 12 to 13 of the Annual Report.

The BARMC is supported by the Internal Audit Department whose principal responsibility is to conduct periodic audits on the internal control matters to ensure compliance with systems and/or standard operating procedures of the Group. Investigation will be made at the request of the BARMC and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC meetings where appropriate actions will be taken.

1. Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the BARMC, which assesses the financial statements with the assistance of the external auditors.



corporate governance & INTERNAL CONTROL (continued)

D) ACCOUNTABILITY AND AUDIT (CONTINUED)

2. Internal Control

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

Following the re-designation of the BARMC mentioned above, the BARMC is also entrusted with the responsibility of identifying and communicating to the Board critical risks the Group faces, changes to the Group's risk profile and management's action plans to manage the risks.

3. Relationship with Auditors

The appointment of external auditors is recommended by the BARMC, which determines the remuneration of the external auditors. The external auditors meet with the BARMC to:-

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

E) STATEMENT ON INTERNAL CONTROL

The Board, recognising its responsibilities in promoting good corporate governance and ensuring sound internal controls and risk management practices, has set up the BARMC on 10 January 2002. The Board has also put in place an Integrated Risk Management Framework to assist it in:-

- identifying the significant risks faced by the Bank Group in the business environment as well as evaluating the impact of such risks;
- developing and approving the necessary controls and measures to manage these risks; and
- monitoring the adequacy and effectiveness of such controls and measures.

The BARMC, assisted by the Internal Audit Division, oversees and reports to the Board on the proper

functioning of the Integrated Risk Management Framework, as part of its responsibilities of monitoring compliance with the business objectives, policies, reporting standards and control procedures of the Group.

The controls instituted by the Group's operating units and built into the risk management framework are not intended to eliminate all risks of failure to achieve business objectives but are designed to ensure all relevant and significant risks have been identified and managed as part of the management and decision-making process throughout the Group. As with all such frameworks, controls, by their nature, can only provide reasonable, but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

The risk management framework is embedded in the management and decision-making process through the following structures:-

- Key strategies to achieve the Bank Group's business plans and budget as approved by the Board, are tracked and reviewed by the operating divisions/departments to monitor achievement of these business plans and budgets.
- The various divisional and departmental heads of the Bank Group operate their respective units within the policies, functional, financial and operating reporting standards and control procedures developed by the Group. Such reporting standards and control procedures are supplemented on an ongoing basis by operating procedures, policies and action plans developed by the operating units to manage and monitor risks impacting the Bank Group and to suit the regulatory and business environment in which they operate.
- Where feasible and necessary, relevant group resources are focused to manage common risks on an integrated and Group-wide basis, using common tools, procedures and control systems as appropriate.



corporate governance & INTERNAL CONTROL (continued)

E) STATEMENT ON INTERNAL CONTROL (CONTINUED)

The Chief Risk Officer ('CRO') of the Group is the custodian of the Integrated Risk Management Framework and is responsible to:-

- evaluate all identified risks for their continuing relevance in the business environment and inclusion in the Risk Management Framework;
- oversee and monitor the implementation of appropriate systems and risk management controls to manage these risks;
- assess the adequacy of 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 and the Board on the state of internal controls and the efficacy of management of risks throughout the Group.

In discharging the above responsibilities, the CRO is guided by but not limited to the questions raised in the Appendix to the Statement of Internal Control - Guidance for Directors of Public Listed Companies and he reports regularly to the BARMC and the Board on risk matters. The Board receives regular reports on significant risk areas e.g. market risks, credit risks and operational risks.

As a licensed banking and finance institution, the business of the Group entails management of risks common to all financial intermediaries. The more significant risks are set out below:-

- Credit risk - Exposure to a loss arising from the failure of a customer or a counterparty to honour debts or settlement of a security on purchase or on maturity.
- Interest rate risk - Exposure to loss arising from an unfavorable movement in interest rates, resulting in mismatch between income and expense between assets and liabilities.

- Market risk - Exposure to cash or opportunity loss from an unfavorable movement in equity prices and foreign exchange rates.
- Liquidity risk - Possibility of an inability to meet cash obligations at acceptable rates.
- Operational risk - Exposure to loss resulting from failure of operational procedures and/or control systems.
- Product risk - Possibility of products incurring financial or opportunity loss attributed to poor reception by customers, mispricing, poor product features and/or timing of entrant of the products.

F) DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The Listing Requirements of the Bursa Malaysia Securities Berhad require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of financial year and of the results and cash flow of the Group and of the Bank for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group and of the Bank for the financial year ended 30 June 2004, the Group has used the appropriate accounting policies and applied them consistently. The Directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.



notice of ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty-third Annual General Meeting of Hong Leong Bank Berhad ("Bank") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 2 November 2004 at 11.00 a.m. in order:

1. To receive and consider the audited financial statements together with the reports of the Directors and Auditors thereon for the year ended 30 June 2004;
2. To declare a final dividend of 15.5 sen per share less income tax at 28% for the year ended 30 June 2004 to be paid on 23 November 2004 to shareholders registered in the Record of Depositors on 8 November 2004;
3. To approve the payment of Directors' fees of RM431,038 to be divided amongst the Directors in such manner as the Directors may determine;
4. To re-elect Encik Zulkiflee Hashim, Mr Kwek Leng Hai Mr Kwek Leng Seng and Mr Tsui King Chung, David, the retiring Directors;
5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Bank and authorise the Directors to fix their remuneration;
6. As a special business, to consider and, if thought fit, pass the following ordinary motion:-

AUTHORITY TO DIRECTORS TO ISSUE SHARES

"**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Bank, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Bank for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Bank."; and

7. To consider any other business of which due notice shall have been given.

FURTHER NOTICE IS HEREBY GIVEN that a depositor shall qualify for entitlement to the final dividend only in respect of :-

- (a) shares transferred into the depositor's securities account before 4.00 p.m. on 8 November 2004 in respect of ordinary transfers; and
- (b) shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

By Order of the Board

LOH BEE HONG

Secretary

Kuala Lumpur
11 October 2004

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Bank and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Bank. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds.
2. The Form of Proxy must be deposited at the Registered Office of the Bank at Level 6, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.
3. **ORDINARY RESOLUTION ON AUTHORITY TO DIRECTORS TO ISSUE SHARES**
The Ordinary Resolution, if passed, will give authority to the Directors of the Bank to issue ordinary shares of the Bank for such purposes as the Directors consider would be in the interest of the Bank. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Bank.

Notice of annual general meeting

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NOTICE OF ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.28(2) of the Listing Requirements of the Bursa Malaysia Securities Berhad

1. Directors who are standing for re-election at the 63rd Annual General Meeting of the Bank

Pursuant to Article 113 of the Bank's Articles of Association

Encik Zulkiflee Hashim

Mr Kwek Leng Hai

Mr Kwek Leng Seng

Pursuant to Article 92 of the Bank's Articles of Association

Mr Tsui King Chung, David

2. Details of attendance of Directors at Board Meetings

There were nine (9) Board meetings held during the financial year ended 30 June 2004. Details of attendance of the Directors are set out in the Directors' Profile appearing on pages 5 to 10 of the Annual Report.

3. Place, Date and Time of 63rd Annual General Meeting

The 63rd Annual General Meeting of the Bank will be held at Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 2 November 2004 at 11.00 a.m.

4. Further details of individuals who are standing for election as Directors

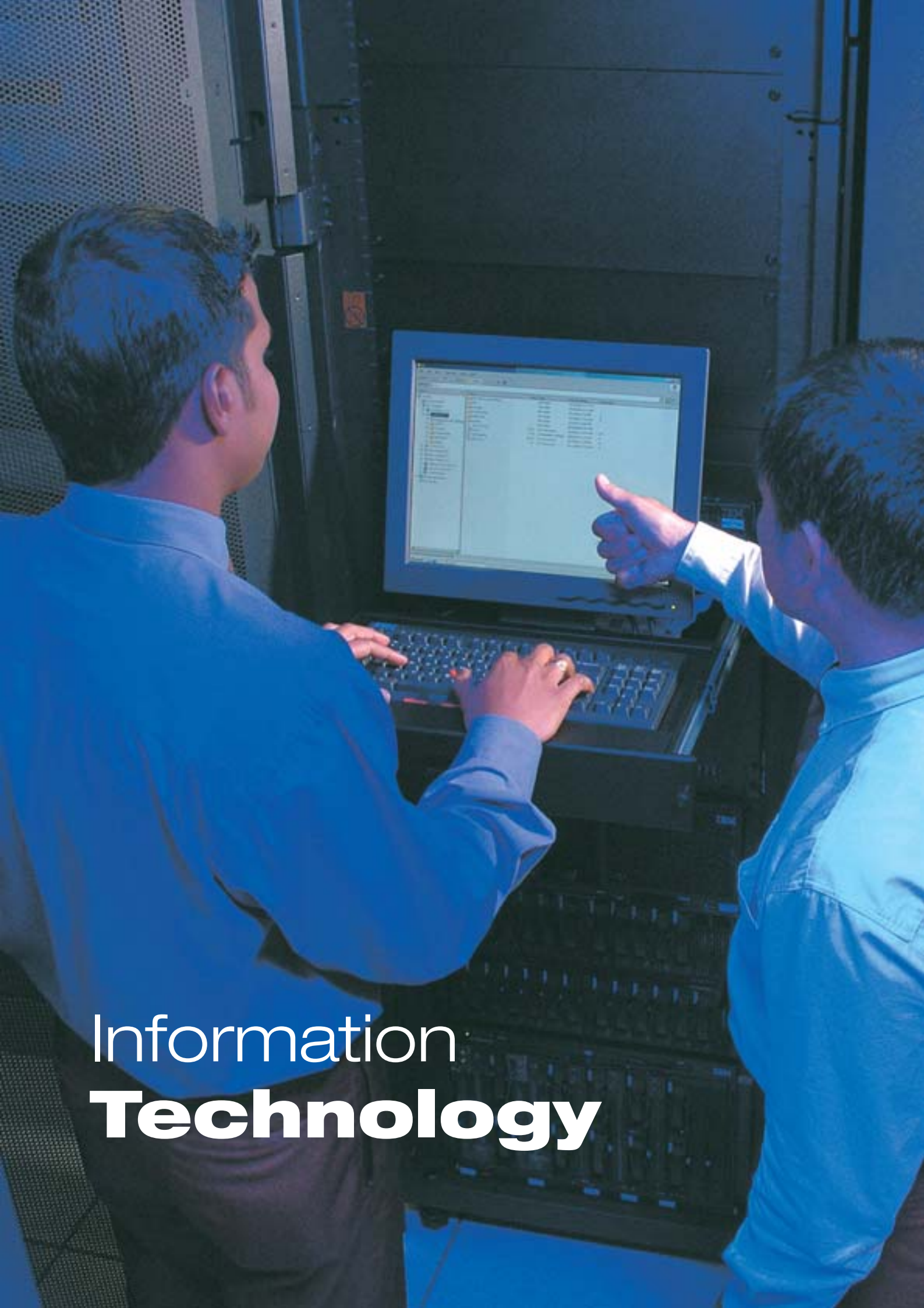
No individual is seeking election at the forthcoming 63rd Annual General Meeting of the Bank.

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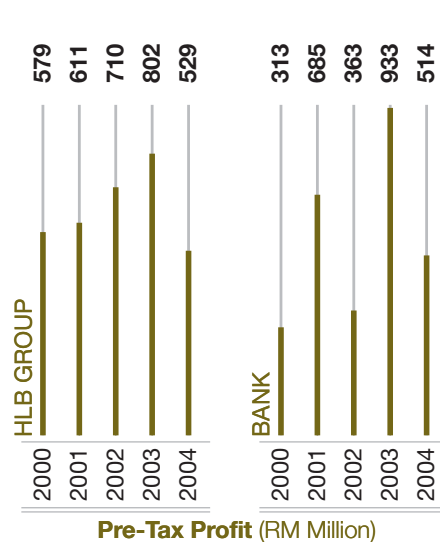
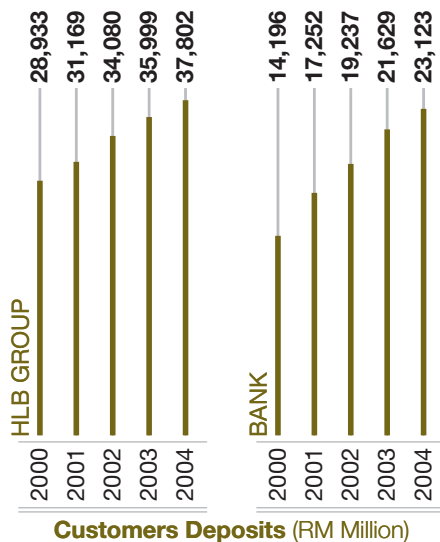
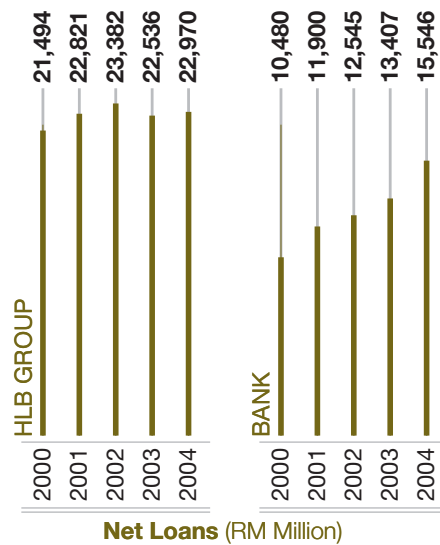
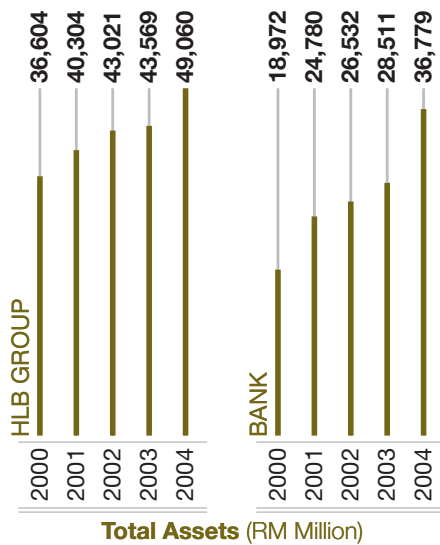
Chairman's statement



Information **Technology**



financial HIGHLIGHTS



	June 00 RM Million	June 01 RM Million	June 02 RM Million	June 03 RM Million	June 04 RM Million
TOTAL ASSETS					
HLB Group	36,604	40,304	43,021	43,569	49,060
Bank	18,972	24,780	26,532	28,511	36,779
NET LOANS					
HLB Group	21,494	22,821	23,382	22,536	22,970
Bank	10,480	11,900	12,545	13,407	15,546
CUSTOMERS DEPOSITS					
HLB Group	28,933	31,169	34,080	35,999	37,802
Bank	14,196	17,252	19,237	21,629	26,123
PRE-TAX PROFIT					
HLB Group	579	611	710	802	529
Bank	313	685	363	933	514

chairman's STATEMENT

On behalf of the Board of Directors, I have pleasure in presenting the Annual Report and Financial Statements of the Group and the Bank for the year ended 30 June 2004.

FINANCIAL PERFORMANCE

For the financial year ended 30 June 2004, the Group continued to register healthy growth in total assets, with an increase of 12.6% over the last 12 months. Loans, advances and financing also registered a net growth over the financial year ended 30 June 2003, representing a reversal of declining trend observed in the prior year.

Among the various sectors, lending for residential properties recorded an impressive growth of close to 27% year-on-year, as a result of strong inroads made into the mortgage business. Within our consumer banking business, credit card and share margin financing businesses also registered improvement, reaffirming our thrust into consumer financial services based on the strong franchise of the Bank.

While lending to the business segment remains relatively flat in line with the industry, the Group continued to gain better penetration within the priority sectors of manufacturing, utilities, general commerce and business services.

The strategy to rebalance our exposure in hire purchase portfolio in the last two and half years, saw the declining exposure to financing of motor vehicles to 26% versus 35% respectively to our total loans.

Deposits from customers continued its strong growth during the financial year ended 30 June 2004, of which over 62% are deposits from individual customers. This

represents a robust and persistent base of funding for the Group, reflecting the continuing trust of the community and customers in the Hong Leong Banking Group.

Net interest income for the financial year ended 30 June 2004 registered at RM1,055 million, a slight decline from the previous corresponding year. This reflects the trend of thinning margins within the industry, given the increasingly price driven competition within an environment of excess liquidity.

Under non-interest income, fees income and foreign exchange gains registered stronger results over the last financial year, with growth of over 20% and 18% respectively. Notwithstanding this, the total non-interest income remains flat for the full year due to a significant accounting mark-to-market loss charge off against the Treasury's trading book.

With the on-going investment in the areas of network expansion, technology and human resources, overhead expenses increased by around 6% over the last financial year to RM498 million. Nevertheless, the Group cost to income ratio remains at an efficient level of approximately 36%. Going forward, we will be guided by a need to stay vigilant, productive and efficient, as well as making relevant investments to meet the needs of the changing market.

For the year ended 30 June 2004, profit before tax for the Group is recorded at RM529 million, a 34% decline from the last corresponding period, mainly due to some lumpy specific provisions made in the 3rd quarter of



chairman's STATEMENT (continued)



the financial year with regard to a few large restructured and rescheduled non-performing loans that lapsed during that period.

Notwithstanding this, the ratio of non-performing loans to net total loans as at 30 June 2004 had improved to 5.4% from 6.2% a year ago. Earnings per share for the financial year remain strong at 24.5 sen (basic as well as fully diluted), despite a larger share capital base as a result of the special Bumi issue undertaken during the financial year.

The Group remains very well capitalised as at 30 June 2004, with risk-weighted capital ratio of 19.0%. This strong position coupled with the Group's healthy liquidity position would position us well to pursue further growth opportunities.

BUSINESS AND OPERATIONAL REVIEW

Consumer Banking

Consumer banking is the core business of the Group, with mortgage, hire purchase, credit card as well as wealth management as our core offerings and constitutes close to 70% of total lending portfolio. At RM555 million, the profit before tax for consumer banking is slightly better than last year despite the margins squeeze experienced, and is the major contributor of the profit before tax of the Group in the current financial year. Consumer Banking represents an important and sustainable income and profit contributor to the Group.

Our core strategy for consumer banking is to position ourselves as a full personal financial services provider in response to the market needs as well as the fast growing base of affluent customer segment. This strategic thrust is supported by the current positioning of Hong Leong Bank as the integrated channels for other financial services products and solutions offered by our affiliated companies i.e. Hong Leong Assurance, HLG Unit Trust and HLG Securities as well as cross selling of various banking products to existing customers. This will be further supported by new product offerings including 3rd party investment funds and advisory services. At the same time, the expanded wealth management offerings will enable the Group to generate a more significant stream of non-interest income to diversify our earning base in view of the trend of thinning interest margins.

Positive momentum was generated on the wealth management offerings during the financial year ended 30 June 2004, where fees income increased by more than two folds over the last corresponding period. As part of our strategy to position the Bank as a total financial services provider, the Bank has put more emphasis to expand our Priority Banking base via both new acquisition and up-selling to existing customers. This effort will be continued in the new financial year via more aggressive marketing and promotion as well as extended products and services offerings.

On the lending side, mortgage business grew by an impressive rate of close to 23% in the financial year ended 30 June 2004. This result is achieved via leveraging on strong relationship with developers, relationship with existing customers and depositors, effective sales force and anti-attribution measures. While we do not generally adopt a price leader strategy, the Bank has participated actively via various promotional packages such as "zero moving cost" in line with the current competitive landscape to ensure that we have the fair grip of the market share and activities.

As reported in the previous Annual Report, the Group undertook to rebalance the hire purchase portfolio exposure in the last 2 years vis-à-vis the risk reward scenario. Consequently, the ratio of hire purchase portfolio to total Group's lending portfolio had reduced from a high of around 43% in financial year ended 30 June 2001, to a more balanced position of 26% for the financial



chairman's STATEMENT (continued)

year ended 30 June 2004. Given this, we would now expect this portfolio to grow in tandem with the overall lending direction, although we will continue to be sensitive to changes in market conditions and competitive scenario. Notwithstanding our more cautious pace for hire purchase business in the last 2 year, the Group continues to develop strong relationship and franchise value among the key car manufacturers and dealers, and this will provide us a strategic leverage to accelerate the pace of new funding.

Credit cards business took the lion share of our new product creation efforts during the financial year. For the 12 months, the Bank has launched 4 new products namely the MTV Hong Leong co-branded Card, the Essential Gold, AMEX "Black" Gold, as well as the Touch-N-Go Zing Card. Through effective brand positioning and differentiated value propositions, these new products have help the Bank to significantly increase our card in force to the region of 500,000 cards banding, and continue to position us as a major player in this segment.

Through these new offerings and brand positioning, the Bank has also managed to gain better penetration into the younger professional segments, a base with strong potential for continuing cross-selling and up-selling.

Business Banking

Business Banking represents another key strength of the Bank, especially among the mid market segment. During the financial year ended 30 June 2004, loans growth remains relatively flat in line with the industry. However, on our focus on priority sectors such as manufacturing, utilities, general commerce and business services, positive loans growth are being registered.

One of the on-going key initiatives for Business Banking during the year is to upgrade our credit competencies and to institutionalise a more discipline credit culture. In conjunction with this, the Group has also embarked on the reorganisation of credit function by industry lines and staffed with more experienced credit specialists. These efforts aim to produce higher credit underwriting quality as well as better efficiency.

The Business Banking loans and customers base are also being organised into different portfolio by type, size, growth potential as well as other credit characteristics, so that the appropriate credit and relationship management processes can be organised to optimise

relationship management as well as the cost to serve. The end-to-end credit management process for Business Banking will be enabled by a new system currently being implemented.

However, the profit before tax for the Business Banking for the year ended 30 June 2004 registered a loss of around RM81 million, due to specific lumpy provision made for a few large legacy restructured and rescheduled non-performing loans that lapsed during the year. Base on prudent credit policy, the management has decided to take the charges as they happened. Barring unforeseen circumstance, the Group does not expect items of similar significance to recur in the near future.

Some of the key challenges for the Business Banking today are the continuous pressure on margins and disintermediation. In this regard, the core strategy for the Group for Business Banking are to continue to strengthen our credit discipline, improve cost to serve as well as aggressively grow fees based earning via new products and new business.

Treasury

The capital and money markets for the year ended 30 June 2004 were characterised as volatile, coupled with some significant changes in regulatory framework. The focus of the Group's Treasury for the period was on the



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chairman's STATEMENT (continued)

building of the investment book to generate better yield. The Group has also taken a more active role in bond and IRS trading, as well as more aggressive sales and marketing efforts in the commercial and retail foreign exchange business. Initiatives such as the automation of retail foreign exchange transaction as well as the setting up of middle office to provide better frontline support were also carried out during the year.

For the financial year ended 30 June 2004, Treasury managed to register a profit before tax of RM55 million (from approximately RM70 million in the last financial year), despite significant mark-to-market losses taken during the year.

Islamic Banking

The Group has intensified its Islamic Banking business activities during the financial year. For the year ended 30 June 2004, loans, advances and financing grew by close to 20%, while deposits from customers increased by around 3% during the same period. Profit before tax is recorded at RM89 million, or at approximately 17% of the Group profit before tax. To-date, 9.4% of the loans comprise of Islamic Banking.

Imaged on our conventional banking business and operates as a window parallel with the existing Bank's sales outlets, the Islamic Banking focuses primarily on the Consumer Banking and Business Banking segment. Our Islamic Banking products and services are being viewed by customers as integral part of our offerings and able to gain wide acceptance from all ethnic groups of the Malaysia society.

The Group views Islamic Banking as an important mainstream bank offering and will continue to intensify our efforts in this endeavour. Some of these initiatives include the introduction of more extensive and innovative products and services, and to explore the option to set up a dedicated subsidiary in line with the call by Bank Negara Malaysia.

Overseas Franchise

Operates based on a "boutique investment bank" model, our Singapore branch, HL Bank Singapore focuses primarily on treasury, investment banking as well as wealth management services for high net-worth segment.

For the financial year ended 30 June 2004, the total incomes as well as profit before tax for our Singapore operations increased by 41% and 235% respectively. We are also pleased that within a short period of time, HL Bank Singapore was placed within the top 3 IPO lead managers in Singapore for the year 2003.



Our Hong Kong branch opened for business in April 2004. Operate based on similar business model as Singapore, we expect to see our Hong Kong branch maiden profit by the new financial year.

RISKS MANAGEMENT AND BASEL II

The Group has an integrated risk management mechanism and process set up, with proper governance in place. The role of this dedicated unit is to provide independent oversight that covers all aspects of market, credit, operational and IT risks within the Group.

As of 30 June 2004, key market risks, credit risks and operational risk exposures and indicators of the Group remains at an acceptable and healthy level. No extraordinary losses were experienced during the financial year, save for the couple of material items with regards to accounting mark-to-market charges, and the lumpy specific provisions made in relation to the few legacy loans. The Group has also taken note of the occasional surges of operational losses due to fraud in the market and has taken necessary steps to address the relevant control issues.

chairman's STATEMENT (continued)

Essential risk management mechanisms for most critical areas are currently in place, including for credit risks, market risks, credit card fraud, IT security as well as business continuity plans for the mission critical systems. A large portion of customers' credit history are well captured within our enterprise wide data warehouse system, enable us to tap on for building more robust analytic and decision model.

In line with the implementation guidelines for BASEL II compliance announced by Bank Negara Malaysia recently, we are currently working on our internal roadmap and will intensify our effort to enhance and align our frameworks, processes and system to comply with the BASEL II framework and implementation deadline.

BUSINESS TRANSFORMATION PROGRAMME

In response to the market outlook, competitive landscape as well as in line with Bank Negara Malaysia's Financial Sector Master Plan, the Group has launched and embarked on a bank wide business transformation programme during this financial year.

As a multi-year journey and change initiative, this programme covers integrated delivery channels expansion and renewal, bankwide service and quality excellence initiatives, workforce transformation as well as various IT infrastructure and capabilities improvement projects.

The Group has also taken this opportunity to renew our vision statement as "An outstanding financial services organisation, highly competitive and profitable, where people make the difference".

Integrated channel and e-banking

The Group is embarking on a more aggressive expansion of our branch network, coupled with further capacity expansion and enhancement of other electronic channels such as self-service terminals, call centre, internet banking and mobile banking. The overall channel strategy will be one based on the notion of "hi-tech and hi-touch", with appropriate technology investment to provide value add and convenience to our customers, while reinforcing the important human personal touch aspects of attention and relationship across all channel interactions.

9 new branches were opened during the financial year across major towns and communities. We are expected to maintain this pace in this new financial year, to have stronger market presence and penetration within the high growth and affluent communities.

Building on our branch remodelling efforts, new branches opening in the coming financial year would also be based on new sale & service concept, providing our customers with a more conducive environment to discuss their financial needs and perform banking transactions.

As an integral part of channel strategy, the Group is increasing our investment in a full range of self-service terminals to offer extended banking facilities and convenience to our customers at more branches throughout the country. Such initiative would also enable us to intensify the migration of routine transactions away from the banking halls, hence enabling our branch staff to spend more quality time on higher value added transactions as well as to offer financial services advisory and products to our customers.

Hong Leong Bank is one of the early adopter of customer relationship management technology and practice among the local banks, via our investment in call centres and customer data warehouse. In this aspect, during the financial year, we have continued to invest in tools, trainings and management resources to further strengthen our customers centric business model and proposition, to provide one stop service, as well as to maximise the relationship with our customers by anticipating and meeting their needs proactively.





chairman's STATEMENT (continued)

Our Internet bank – Hong Leong Online is another key channel. During the financial year, we have enhanced the offerings, security and infrastructure of our internet banking platform to enable our customers to perform their banking any time from any place, with better customer's experience in a more secured environment.

We have recently formed a strategic alliance with Pos Malaysia Berhad for online bill payment services via Hong Leong Online. This will allow our customers greater convenience and also access to more billers.

Service and Quality Excellence

In the banking industry where product commoditisation is becoming a norm, the Group views service and quality excellence as the key differentiation factor from our competitors. Dubbed as "I CARE" programme ("Creating A Rewarding Experience" for customers), a bankwide service and quality excellence initiative was launched in August 2003, with an aim to affirm, inculcate and institutionalise the values of customer focus, service excellence, quality mindset and continuous improvement among all the employees with the Group. Besides service trainings for the front liners, under this programme, all the

managerial staff from the Group Managing Director to the front line supervisors have also been coached on a consistent set of values and management system on leading and living these "service and quality excellence" values.

The Group has established a comprehensive set of "Service Quality Index" to measure the performance of areas that matters most to the customers. These indices are being monitored, tracked and acted upon constantly by the management and employees to improve customer's satisfaction and drive continuous improvement. Various process improvement projects using world-class quality management methodology have also been launched by various business and support divisions to build more customer centric and efficient processes across all front line and back office functions.

Workforce Transformation

Workforce transformation is another key pillar of our business transformation that cannot be over emphasised. As clearly articulated in our vision statement: "people make the difference".

Leading at the helm today, is a strong team of experienced bankers and talented professionals, under the leadership of our new Group Managing Director, Ms Yvonne Chia, who was appointed in November 2003. A fusion of existing senior managers who have intimate knowledge of our customers and corporate values, with new team members who have extensive financial services credentials both local and abroad, the new team will be the force to drive our strategic thrust forward.

Various initiatives have also been put in place throughout the organisation to create a high performance culture, where goals are set and clarified, with timely review, feedback and coaching.

Building on our on-going credit culture programme, creating an outstanding sales and services culture are the key emphasis during the financial year. In this aspect, we have also realigned our organisation structure, both front line as well as at various support functions to enable more effective sales thrust and better ownership and accountability for end-to-end customer services experiences. The Group's staff development and training programmes have also been realigned to support this endeavour.



chairman's STATEMENT (continued)

In current financial year, the Group has revamped and reintroduced our management training programme via the "Hong Leong Young Bankers Programme". Successful candidates would be put through a fast track development and on-the job learning programme to assume front line leadership in their chosen fields.

Hong Leong Banking Group employees are well recognised for their strong work ethic and competencies. Building on these strengths, the Group will continue to provide a positive work environment and rewarding career opportunities in order to further attract, develop, motivate and retain the experienced staff and talents, to fully harness the power of teamwork and competitive edge of our people in order to make a difference to our customers, shareholders and organisation.

To support this workforce transformation initiative, the Group has also invested and embarked on the implementation of PeopleSoft Workforce solution to reengineer and enable more effective workforce management based on world class best practices, processes and framework.

Information Technology

Information technology infrastructure and capabilities upgrading constitute our last pillar of this business transformation programme. During the financial year, the Group has embarked on a number of strategic IT projects to upgrade our core banking software and infrastructure to provide better service level, enriched offerings and more secured environment for our customers. At the same time, the Group will also be leveraging on these enabling technology to drive better productivity and reduce the cost to serve. Some of our major ongoing IT projects include nominees system for total assets management solutions, credit processing, credit risks management as well as collection system.

In tandem with this, the Group is also embarking on IT technical and project management competencies training to both IT and business staff, to foster stronger IT ownership by business people, and to ensure the on-time, efficient delivery of all IT projects that is critical for revenues generation, excellent service delivery and productivity improvement.

MERGER WITH HONG LEONG FINANCE

Hong Leong Bank and Hong Leong Finance have since the last few years, operated as an integrated business with a single leadership team, common IT platform, standardised processes as well as seamless cross-selling and customer servicing.



In response to Bank Negara Malaysia's encouragement for merger with Finance Companies, the Hong Leong Finance's branches have gradually been converted into Bank's branches over the last 18 months.

Shortly after the end of the financial year ended 30 June 2004, on 1 August 2004, Hong Leong Bank has effected its merger with Hong Leong Finance via the transfer of finance company business excluding the leasing business to Hong Leong Bank upon the approval and clearance of the relevant legal matters. This merger has now allowed the Group to present a single face to our customers and allow us to operate as a truly integrated financial services organisation to serve the needs of our customers more effectively and efficiently.

FULFILLING OUR SOCIAL RESPONSIBILITIES

Fulfilling our social responsibilities is an inherent part of our culture in line with Hong Leong Group's motto of "reaching out to you".

During the financial year, the Group continued to participate actively in various social and community service work, both at the corporate level and individual level as well as through Hong Leong Foundation.



chairman's STATEMENT (continued)

As part of our on-going initiative to reach out to the business community, the Bank participated actively in various major programme, including the sponsorship of the World Chinese Entrepreneur Convention and joint organisation of the Trade Seminar with the Chinese Chamber of Commerce.

The Hong Leong Foundation Charity Run was successfully held for the fifth consecutive year as the "Largest Charity Run Ever Held" in Malaysia. The Run which was held on 11 April 2004, was flagged off simultaneously at 24 locations nationwide, recorded a mammoth number of participants of over 92,000, with a sum of RM 1 million pledged to 45 charity organisations nationwide.

The Group have also continued our practice of educational bonus award to the top achievers in UPSR, PMR and SPM, in line with our commitment to support various causes in education.

OUTLOOK FOR THE NEW FINANCIAL YEAR

The outlook for the new financial year promises more changes in the banking industry landscape and hence, our continuous improvement and change journey to meet these challenges.

While the global and local economic outlook remains generally positive for the coming year, we expect to see banks moving to consolidate their operations, to merge their finance and banking branches and also a growing push in the Islamic Banking business.

There is also a likelihood of a rising interest rate scenario. The recent introduction of the new OPR framework will pave the move for banks to increase productivity to mitigate the industry's declining margins.

Vis-à-vis this scenario, the Group will continue to adopt a balanced growth strategy, focusing on gaining better market share on the chosen segments, vis-à-vis the risk reward equilibrium, especially on the credit quality and yield management. Building on our current strength of cost efficiency, we will be further enhancing our service excellence capabilities for competitive advantage, supported by various IT, people development and channel expansion initiatives.

Barring unforeseen circumstances, we are optimistic for the Group to deliver better results in the key areas in the coming financial year, while we will continue to be sensitive to changes in market conditions and outlook with appropriate risks management mindset.

DIVIDENDS

During the financial year, an interim dividend of 8.5 sen per share less income tax at 28% was paid on 30 March 2004. The Board is proposing a final dividend of 15.5 sen per share less income tax at 28%, payable on 23 November 2004 subject to the approval by shareholders in the coming Annual General Meeting.

Subject to the approval, total gross dividends in respect of the financial year ended 30 June 2004 would be at 24 sen per share.

A NOTE OF APPRECIATION

On behalf of the Board of Directors, I would like to record my gratitude to our customers, business partners and shareholders for their continuous support and confidence in the Group. I would also like to express my appreciation to the management team for their tireless efforts in driving the Group towards its strategic vision and objectives and to all the employees of the Group, for their continuous dedication and hard work.

My fellow directors and I would also like to take this opportunity to extend our warm welcome to Mr David Tsui King Chung as our new member appointed to the Board on 20 July 2004 and to thank YBhg Dato' James Lim Cheng Poh and YBhg Datuk Roger Tan Kim Hock for their many years of service to the Group.

My sincere thanks also go to Bank Negara Malaysia, Ministry of Finance, Government agencies and regulatory authorities for their invaluable assistance, guidance and counsel.

QUEK LENG CHAN

Chairman

23 August 2004



People Make
The Difference

our core values:

INTEGRITY

TRUST

SERVICE