**HLG Capital, is the holding company for Hong Leong Investment Bank, Hong Leong Asset Management and HLG Futures. The HLG Capital Group provides investment banking and capital market services and solutions across the region.**

## Corporate Section



# Contents

# Financial Section



# Introduction

**Personal Financial Services**
**Wholesale Banking**
**Islamic Financial Services**
**Investment Banking**
**Insurance**
**Stockbroking**
**Asset Management**
**Unit Trust**

Hong Leong Group has an integrated financial services group offering a comprehensive suite of conventional and Islamic products and services to meet the financial needs of its customers.

Hong Leong Financial Group Berhad, the holding company for Hong Leong Group's banking and financial services, has over the years grown in strength and size through sound and focused business strategies aided by strong management and financial disciplines.

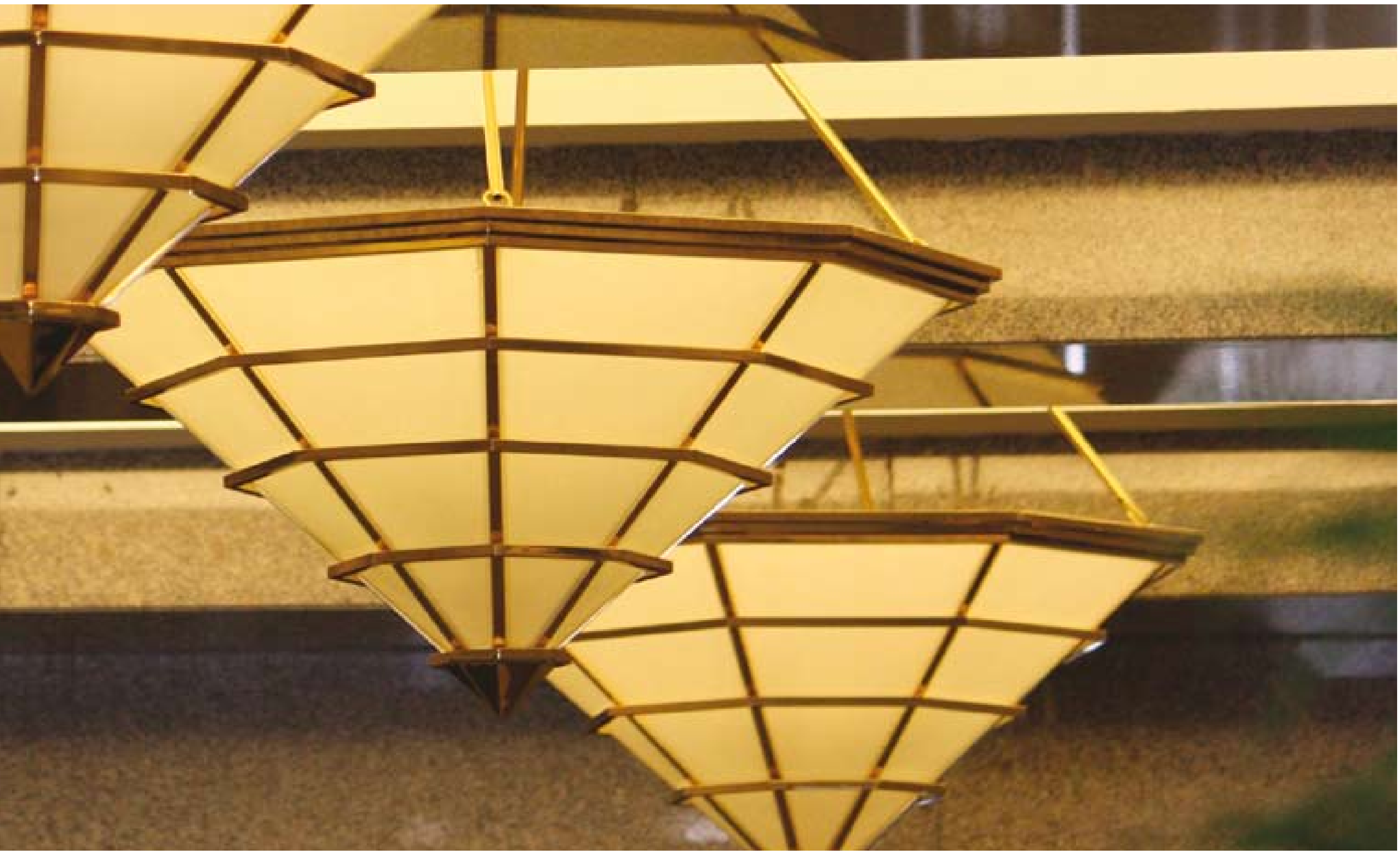
Through Hong Leong Bank Berhad, the Group provides comprehensive services in personal financial services, treasury, corporate and commercial banking and Islamic financial services. With more than a century of embedded presence and banking experience and with a wide network of branches nationwide, Hong Leong Bank Berhad has a solid market position and a well-recognised business franchise in Malaysia. Hong Leong Bank is one of the country's most valued brands, with integrity, trust and service as its core values.

It serves its diverse customer base through an integrated, multi-channel sales and distribution capability of entrenched 185 branches, 17 business and trade centres, more than 640 self-service terminals, a full-service inbound and outbound call centre, internet banking as well as phone banking and mobile banking services.

Hong Leong Bank has a regional presence through its branches in Singapore and Hong Kong. HL Bank in Singapore operates on a boutique investment banking and private banking business model. Hong Leong Bank Hong Kong's core businesses today are in treasury and wealth management and which includes Islamic Banking having launched an Islamic Banking window, the first in the territory.

To further embed itself in the region, Hong Leong Bank ventured into the Mainland China market with its investment in the Bank of Chengdu Company Limited, the largest city commercial bank in Western China.

# Introduction
(continued)



This is the first strategic banking investment by any Malaysian bank in China. Hong Leong Bank is also the first Malaysian and Southeast Asian bank to incorporate and operate a 100% wholly owned commercial bank in Vietnam.

Hong Leong Islamic Bank Berhad is a full fledged Islamic bank providing comprehensive Islamic banking and wealth management services. With innovative solutions covering areas of structured finance, capital markets, corporate & commercial financial services, personal financial services and takaful, Hong Leong Islamic Bank is ready to play a prominent role in the Malaysian Government's vision to transform Malaysia into a global hub for Islamic Financial Services.

Hong Leong Assurance Berhad, one of Malaysia's foremost home grown insurance companies, provides both life and general insurance services in Malaysia and in Hong Kong through its subsidiary Hong Leong Insurance (Asia) Limited. With several decades of business in Malaysia, Hong Leong Assurance continues to be true to its commitment of providing security and peace of mind to its customers.

The Group, through Hong Leong Investment Bank which is a subsidiary of HLG Capital, also provides investment banking and capital market services and solutions across the region. This includes corporate finance, stock broking, equity capital markets and debt capital markets.

The Asset Management arm of the Group is one of the largest fund management companies in Malaysia, with a sterling track record of managing assets across a spectrum of funds that include statutory bodies, state governments, insurance companies, corporations and unit trusts. Hong Leong Asset Management Bhd (formerly known as HLG Unit Trust Bhd) is one of the pioneers in the Malaysian Unit Trust industry and has established itself as a trusted brand name in the market.

# Chairman's Statement

**On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of HLG Capital Berhad (“the Company”) and its subsidiaries ("the Group") for the financial year (“FY”) ended 30 June 2010.**

## OVERALL BUSINESS ENVIRONMENT

The Malaysian economy is showing signs of recovery after being adversely affected by the downturn of the global economy for the first three quarters of 2009, recording a robust gross domestic product (“GDP”) growth of 10.1% in the first quarter of 2010 and 8.9% in the second quarter of 2010 - much higher compared to the 4.4% growth registered in the fourth quarter of 2009. Despite expectations of economic slowdown in the second half of 2010, the country's annual GDP forecast for calendar year 2010 is expected to grow up to 7.0% compared to an annual contraction of 1.7% in 2009.

Investment grew strongly reflecting recovery in investors’ confidence. However, competition within the stockbroking industry is expected to further intensify with more foreign and local participants as the industry continue to liberalise.

Profit margin from the stockbroking activities is increasingly thinner due to more intense competition but the Group is committed in ensuring the relevance of our products and services to our customers.

Similarly, poor demand for retail unit trust products have resulted in weaker profitability dynamics for existing and particularly, new funds. This is causing a need to amend the business model within asset management to offer investment solutions rather than products.

## FINANCIAL PERFORMANCE

The Group recorded a profit after taxation of RM14.3 million for the financial year ended 30 June 2010 as compared to RM12.5 million in the previous corresponding year, an increase of RM1.8 million or 14.4% year-on-year (“yoy”).

The investment banking subsidiary Hong Leong Investment Bank Berhad (“HLIB”), achieved a profit before taxation of RM18.9 million as compared to a loss before taxation of RM48.5 million recorded in the previous financial year. Loss before taxation in the previous financial year was attributed to the write off of goodwill amounting to RM57.2 million in relation to the acquisition of SBB Securities Sdn Bhd and Assets/ Liabilities of Southern Investment Bank Berhad.

The higher profitability was mainly contributed by stronger earnings from stockbroking business due to higher trading volumes on Bursa Malaysia of RM333.2 billion compared to RM250.9 billion in the previous financial year. HLIB’s market share of volume traded on Bursa Malaysia increased to 3.1% in financial year 2010 from 3.0% in the previous financial year. Trading volumes on Bursa Malaysia were boosted by better investor sentiment arising from the recovery in global capital markets. HLIB also offered attractive brokerage fee and products to remain competitive in the market.

The contribution from the other investment banking activities like debt markets, corporate finance and treasury markets have been very encouraging, recording a positive return in their first year of business commencement.

# Chairman's Statement
(continued)

The Asset Management business recorded a profit before taxation of RM6.3 million compared to RM7.8 million recorded in the previous financial year. Unit trust prices faced downward pressure due to lower global equity markets in the early part of the financial year, resulting in assets under management ("AUM") shrinking by 8.2% to RM2.7 billion. New fund launches also slowed significantly during the financial year, following a string of generally poor performance of capital protected funds across the market – an asset class that saw phenomenal growth in recent years.

During the year, the Company undertook a rights issue of 123,448,334 new ordinary shares at an issue price of RM1.00 each to shareholders which was fully subscribed by investors.

Overall, earnings per share decreased to 6.0 sen per share from the 10.4 sen per share recorded in the previous financial year due to the effect of the rights issue.

As we continue to build on our investment banking business, the Group has taken the decision to be prudent and to conserve its capital. Hence no dividend has been recommended for the financial year ended 30 June 2010.

## CORPORATE DEVELOPMENTS

HLIB had on 30 July 2009 obtained approval from the Securities Commission to commence corporate finance activities after the fulfillment of certain conditions. During the financial year, the Group had expanded its business activities to include the offering of the full range of capital market and corporate advisory services. The bank will focus on innovation with the ultimate aim of being a strong regional investment bank and asset management firm.

The Group has also successfully secured the 5th ranking on International Financing Review Asia's League Table for Malaysian Syndicated Loans for first half of 2010, thereby strengthening the branding of the Group. Broker ranking of HLIB has improved from 13th in previous financial year to 12th in the current financial year.

The Asset Management business ranks 6th by unit trust AUM, with discretionary absolute return and ethical strategies ranking in the top quartile in independently-verified performance tables.

## OUTLOOK

The key focus for the coming financial year is to continue its drive to strengthen and build on the existing investment banking and asset management platforms via offerings of innovative solutions, and leveraging on Hong Leong Group's relationships.

Enhancing and streamlining the Group's operations to deliver efficient solutions to clients is definitely one of the strategic imperatives for the Group to progress further. To operate and stay relevant in an intensely competitive industry, the Group also believes in the importance of building talent and improving staff strength for business growth.

In order to support the Group's planned growth strategy, HLIB aims to maintain a healthy capital base. HLIB's risk-weighted capital adequacy ratio currently stands at 33.5% as at 30 June 2010.

## ACKNOWLEDGEMENTS

The long-term success of the Group is attributed to the support and commitment from our Board of Directors, management and all staff. I also wish to extend our appreciation to our clients, business partners, regulatory authorities, bankers, advisors and auditors and look forward to another rewarding year with you.

**Quek Leng Chan**
*Chairman*
17 September 2010

# Corporate Social Responsibility

**Long before corporate social responsibility as a single concept was promulgated into guidelines for companies to follow, the Group was already well on its journey. Corporate Social Responsibility (CSR) for the Hong Leong Group has always been more than just about community welfare. It is about having a sustainable business strategy in the face of global demands and challenges.  It is also about conducting business with a conscience - caring for the community, the environment, the customers, employees and stakeholders.**


Hong Leong Foundation

# Corporate Social Responsibility
(continued)

**The Hong Leong Group has initiated structured development programmes to help develop leadership skills, technical and soft skills among different groups of employees.**

## ECONOMIC SUSTAINABILITY

For many years now, the Group has had in place internally generated best practices to ensure the economic sustainability of all its companies. Some of these best practices are:

- An established Financial Management Discipline intended to drive excellence in financial management with the objective of preserving and enhancing the quality of business as an on-going concern.
- An established Enterprise Risk Management structure to ensure that a systematic process and delegation of responsibility is clearly set out to guide management. The Group sees Enterprise Risk Management as a serious consideration to protect the company from defaults that could fundamentally damage enterprise value.
- A strict code of business conduct and ethics which the Group abides by in all types of transactions and interactions.
- Public communications, like financial reports contain disclosures that are fair, accurate, timely and understandable.
- In choosing its directors, the Group seeks individuals of high integrity, have shareholder orientation and a genuine interest in their respective company's businesses. They are tasked with the responsibility of exercising their business judgment to act in what they reasonably believe to be in the best interest of the company and the shareholders they represent.
- The strict practice of responsible selling and marketing of products and services, in a global market that is increasingly becoming even more aggressive and competitive.

## SOCIAL SUSTAINABILITY

**Employee Development and Welfare**

The Hong Leong Group has initiated structured development programmes to help develop leadership skills, technical and soft skills among different groups of employees.

# Corporate Social Responsibility
(continued)


As an example, HL Manufacturing Group had rolled out the IG's Total Achievers' Group Programme, initiated in Fiscal Year 2007/2008, as a structured programme to develop managerial talents into future leaders of the Group. This programme involved managers from the various companies in the HL Manufacturing Group.

The Group's Graduate Development Programme aims to identify and develop young graduates into engineering talents to support the growth of the Group. Such programme entails classroom training, on-the-job familiarisation, projects or learning assignments as well as mentoring.

For the non-executives, various in-house and external programmes were conducted to enhance their technical competencies as well as supervisory skills in order to develop a competent workforce.

**Diversity and Inclusion**

With an approximate total workforce of 28,000 spread across North Asia and Southeast Asia, and the UK, the Hong Leong Group develops talent regardless of race, gender or religious belief. Staff advancement is based on merit and we believe that it is this variety of persuasions and cultures that fuel creativity, entrepreneurship and openness.

The Group also actively promotes work-life balance through various sports, family, social events initiatives. In this regard, various initiatives such as sports activities, social events and family day, were carried out with the full support and commitment of the employees throughout the financial year.

**Environmental Preservation**

As part of our commitment to our employees and to society as a whole, we practise environmental preservation and maintain high standards of Occupational Safety and Health management practices. Environmental management programmes such as recycling campaigns, air pollution controls and waste management programmes are continuously deployed to achieve the Group's objectives.

In addition, we conduct regular occupational safety and awareness programmes for our employees.

Earth Hour, a global event where households and businesses are encouraged to turn off non-essential lights and other electrical appliances for one hour to raise awareness towards the need to take action on climate change, was observed by the Group.

# Corporate Social Responsibility
(continued)

Organised by the World Wildlife Fund, Earth Hour was conceived in Sydney in 2007. Since then, many other cities around the world adopted the event in 2008, and is now held on the last Saturday of March annually. By doing its part, the Group supported this global effort to help make a difference.

## COMMUNITY INVESTMENT

The Group conducts most of its philanthropic activities through the Hong Leong Foundation, the charitable arm of Hong Leong Group. Since its incorporation in 1992, the Foundation's programmes have been funded by the Group companies' contributions. The Foundation focuses on education and community welfare as its key thrusts and responds to appeals for aid of victims of natural disasters such as floods, tsunamis and others. Among its focus areas, education in particular, takes top priority.

### Scholarship

The Foundation has, as part of its donation framework, designed a Scholarship Programme to benefit academically outstanding Malaysian students from low-income families, and of late also included students with disabilities. The Foundation believes that providing scholarships is about providing opportunities – giving deserving students the chance to have the higher education necessary to break the cycle of poverty and become tomorrow's leaders.

Over 1.5 million Ringgit is allocated each year for scholarship grants for the public for diploma and undergraduate studies at local universities and selected institutions of higher learning. Invitations are also extended to the scholars for industrial training at Group companies to help ensure that scholars graduate into the workforce with sufficient knowledge and relevant experience.

Apart from these, a separate fund is set aside for scholarship grants for deserving children of Group staff. Both grants for the public and Group staff's children are unconditional – they do not carry any repayment requirement nor are the recipients bonded to work for the Group upon graduation.

### Student Assistance

Although primary and secondary education in Malaysia is free, there are still a number of students from low-income families who find it a challenge to put this educational opportunity into best use. To address the immediate needs of these students, the Foundation reaches out to them through the Student Assistance Programme. To date, through this Programme, the Foundation has sponsored thousands of underprivileged school children nationwide in the form of distribution of free school bags, books, uniforms, stationeries, dictionaries, bicycles, tuition, transportation fees and others.

### School Building Fund

The Foundation actively pursues opportunities where it can play a part in improving the quality of education in the country today. Donations for the construction of bigger and better facilities for learning institutions help create an environment in which students can excel.

Towards this, the Foundation has made substantial donations to various academic and vocational training institutions nationwide.

### Community Welfare

Every year, the Foundation helps improve the lives of the less fortunate through its Community Welfare Programme. Sponsorships in cash and kind are made to charities nationwide, ensuring their survival and their ability to provide shelter, food and clothing for

# Corporate Social Responsibility
(continued)

all its residents – the young orphans, the aged who have been abandoned by their families, the sick, the disabled and the mentally challenged. The NGOs are also able to run their various training programmes more efficiently with better infrastructure, facilities and equipment sponsored by the Foundation.

The Foundation has made substantial donations to many charities over the years. In this fiscal year alone, Vinashini Home Seremban, Little Sister of the Poor Kuala Lumpur, Education, Welfare, Research Foundation, Science of Life 24/7 Malacca, Persatuan Kanak Kanak Cerebal Palsy (Spastik) Pulau Pinang, Pusat Jagaan Nur Salam, Persatuan Daybreak Perak, Sunflower Centre Sarawak and Sabah Cheshire Home, were amongst some of them.

Apart from activities carried out by the Foundation, Group companies stage their own activities in numerous communities nationwide. The Group's employees regularly participate in community services that include visits to orphanages and welfare homes, assist in the provision of medical services to poor communities through blood donation drives and volunteer work in hospitals as well as initiating and participating in projects involving environmental and social issues.

An inaugural carnival themed "Colourful You, Colourful Me" for underprivileged children from various children's shelters was also held this year in conjunction with the Chinese New Year. Various Group employees worked together to create an exciting and fun-filled morning for about 350 children.

**Small Enterprise Programme**

The people behind Hong Leong Group are entrepreneurs and we seek to propagate this same spirit of entrepreneurship to the community. By expanding our contribution to the community to include this new category, through our dealings with various charities on programs designed to help the underprivileged set up their own businesses, we are able to teach people to stand on their own two feet, eventually breaking the cycle of poverty. Over the short term, those whom we help by giving seed money for businesses will be able to generate enough income to be able to provide for their families' needs. Over time, with proper management and guidance these businesses will grow and, in turn, be able to help others.

Towards this end, we are working with various NGOs, among which are Ray of Hope and The Community Service Centre For the Deaf, Kuala Lumpur.


# Corporate Information

We are a diversified and experienced financial service provider committed to providing quality products and services to our customers

## DIRECTORS

**YBhg Tan Sri Quek Leng Chan**
*Chairman*

**YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman**

**YBhg Dato' Ahmad Fuaad bin Mohd Dahalan**

**YBhg Dato' Mohamed Nazim bin Abdul Razak**

**Mr Choong Yee How**

**Mr Quek Kon Sean**

## SECRETARY

**Ms Christine Moh Suat Moi**
MAICSA No. 7005095

## AUDITORS

**Messrs PricewaterhouseCoopers**
Chartered Accountants
Level 10, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
50706 Kuala Lumpur
Tel : 03-2173 1188
Fax : 03-2173 1288

## REGISTRAR

**Hong Leong Share Registration Services Sdn Bhd**
Level 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel : 03-2164 1818
Fax : 03-2164 3703

## REGISTERED OFFICE

Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel : 03-2164 8228
Fax : 03-2164 2503

## WEBSITE

www.hlgcap.com.my

# Directors' Profile

We firmly believe that our core values form our foundation and framework. These values build character; they are the binding cord that holds the people together, the driving force towards the successful accomplishment of the Group's Vision.

## YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Independent

Aged 67, YBhg 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 HLG Capital Berhad ("HLGC") and was appointed to the Board of Directors ("Board") of HLGC on 25 February 1991. Tan Sri Quek is also a member of the Nominating Committee ("NC") and Remuneration Committee ("RC") of HLGC.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, a public company; Executive Chairman of Hong Leong Industries Berhad, GuocoLand (Malaysia) Berhad and Narra Industries Berhad; Chairman of Hong Leong Financial Group Berhad ("HLFG") and Hong Leong Bank Berhad ("HLB"), companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"); and Chairman of Hong Leong Assurance Berhad ("HLA"), Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong Foundation, all public companies.

Tan Sri Quek attended all the four Board Meetings of HLGC held during the financial year ended 30 June 2010.

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

Non-Executive Director/ Independent

Aged 74, YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, 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 HLGC on 5 August 1991. YBhg Tan Sri Khalid is also the Chairman of the Board Audit & Risk Management Committee ("BARMC") and NC of HLGC.

YBhg Tan Sri Khalid is also a Director of HLFG, a company listed on the Main Market of Bursa Securities and Hong Leong Investment Bank Berhad ("HLIB"), a public company.

YBhg Tan Sri Khalid attended all the four Board Meetings of HLGC held during the financial year ended 30 June 2010.

# Directors' Profile
(continued)

## YBhg Dato' Ahmad Fuaad bin Mohd Dahalan
Non-Executive Director/ Independent

Aged 60, YBhg Dato' Ahmad Fuaad bin Mohd Dahalan, a Malaysian, holds a Bachelor of Arts (Hons) degree from University of Malaya.

YBhg Dato' Ahmad Fuaad was attached to Wisma Putra, Ministry of Foreign Affairs as Malaysian Civil Service Officer in April 1973 before joining Malaysia Airlines in July 1973. While in Malaysia Airlines, YBhg Dato' Ahmad Fuaad served various posts and his last position was as the Managing Director. He was formerly a Director of Lembaga Penggalakan Pelancongan Malaysia, Director for Malaysian Industry-Government Group for High Technology and Director of Malaysia Airports Holdings Berhad.

YBhg Dato' Ahmad Fuaad was appointed a Director of HLGC on 12 December 2005. He is a member of the BARMC, NC and RC of HLGC.

YBhg Dato' Ahmad Fuaad is also a Director of Tokio Marine Insurans (Malaysia) Berhad, a public company and YTL e-Solutions Berhad, a company listed on the ACE Market of Bursa Securities.

YBhg Dato' Ahmad Fuaad attended all the four Board Meetings of HLGC held during the financial year ended 30 June 2010.

## YBhg Dato' Mohamed Nazim bin Abdul Razak
Non-Executive Director/ Independent

Aged 48, YBhg Dato' Mohamed Nazim Bin Abdul Razak, a Malaysian, an architect by profession, graduated from the Architectural Association, School of Architecture, London. YBhg Dato' 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. YBhg Dato' is the Managing Director of NR Associates Sdn Bhd.

YBhg Dato' Mohamed Nazim was appointed to the Board of HLGC on 4 October 2005. YBhg Dato' is also the Chairman of the RC and a member of the NC and BARMC of HLGC.

YBhg Dato' is also a Director of HLB, a company listed on the Main Market of Bursa Securities, ING Insurance Berhad and HLISB, both public companies.

YBhg Dato' attended three out of the four Board Meetings of HLGC held during the financial year ended 30 June 2010.

# Directors' Profile
(continued)

## MR CHOONG YEE HOW
Non-Executive Director/
Non-Independent

Aged 54, Mr Choong Yee How, 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. He has over 26 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 HLGC on 1 December 2005. He is a member of the NC of HLGC.

Mr Choong is also a Director of HLFG and HLB, companies listed on the Main Market of Bursa Securities and HLA, HLISB, Hong Leong Tokio Marine Takaful Berhad and HLIB, all public companies.

Mr Choong attended all the four Board Meetings of HLGC held during the financial year ended 30 June 2010.

# Directors' Profile
(continued)

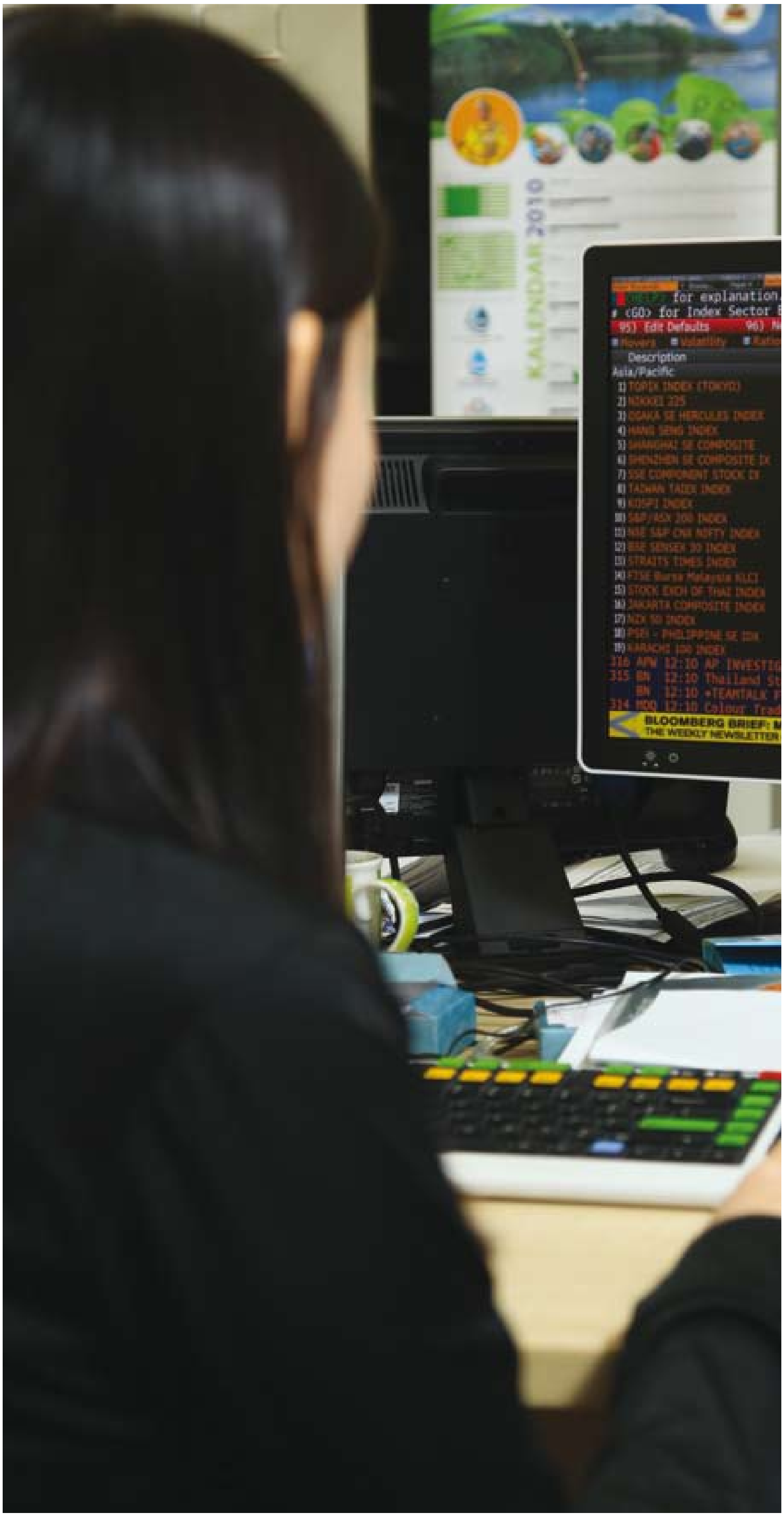
## ■ MR QUEK KON SEAN
Non-Executive Director/
Non-Independent

Aged 30, Mr Quek Kon Sean, a Malaysian, obtained Bachelor of Science and Master of Science degrees 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 HLGC on 28 February 2006.

Mr Quek is also a Director of HLFG and HLB, companies listed on the Main Market of Bursa Securities, and HLA, a public company.

Mr Quek attended all the four Board Meetings of HLGC held during the financial year ended 30 June 2010.




**Notes:**

1. **Family Relationship with Director and/or Major Shareholder**
   Tan Sri Quek Leng Chan and Mr Quek Leng Chye, a deemed major shareholder of HLGC, are brothers. Tan Sri Quek Leng Chan is the father of Mr Quek Kon Sean. Save as disclosed herein, none of the Directors has any family relationship with any other director and/or major shareholder of HLGC.

2. **Conflict of Interest**
   None of the Directors has any conflict of interest with HLGC.

3. **Conviction of Offences**
   None of the Directors has been convicted of any offences in the past 10 years.

# Board Audit and Risk Management Committee Report

## CONSTITUTION

The Board Audit Committee of HLG Capital Berhad ("HLGC" or "the Company") has been established since 23 March 1994 and had been re-designated as the Board Audit & Risk Management Committee ("BARMC") on 29 August 2001.

## COMPOSITION OF BARMC

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
*(Chairman, Independent Non-Executive Director)*

YBhg Dato' Ahmad Fuaad bin Mohd Dahalan
*(Independent Non-Executive Director)*

Encik Omar bin Zolkifli
*(Independent Non-Executive Director, Resigned on 29 October 2009)*

YBhg Dato' Mohamed Nazim bin Abdul Razak
*(Independent Non-Executive Director, Appointed on 11 December 2009)*

## SECRETARY

The Secretary to the BARMC is the Group Chief Internal Auditor.

## TERMS OF REFERENCE

- 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 scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To review the assistance given by the officers of HLGC and its subsidiaries ("the Group") to the external auditors.
- To review the quarterly reports and annual financial statements of the Company and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit functions.
- To review the report and findings of the internal audit functions including any findings of internal investigation 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 Company
  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 review any related party transactions that may arise within the Company or the Group.
- Other functions as might be agreed to by the BARMC and the Board.

## AUTHORITY

The BARMC is authorised by the Board to review any activity of the Group within its Terms of Reference. 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.

# Board Audit and Risk Management Committee Report (continued)

## MEETINGS

The BARMC meets at least four (4) 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 Operations, Head of Compliance of Hong Leong Investment Bank, Group Financial Controller, Group Chief Internal Auditor, Head of Risk Management and external auditors are invited to attend the BARMC Meetings. At least twice a year, the BARMC will have a separate session with the external auditors without the presence of Executive Directors and management.

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 carries out its duties in accordance with its Terms of Reference.

During the financial year ended 30 June 2010, four (4) BARMC Meetings were held and all the meetings were attended by all the Committee members. Dato' Mohamed Nazim bin Abdul Razak who was appointed to the BARMC on 11 December 2009 had attended one out of the two meetings held subsequent to his appointment. The BARMC also had two (2) separate sessions with the external auditors without the presence of management.

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 any significant changes in accounting and auditing issues, reviewed the management letter and management's response, reviewed 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.

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.

## INTERNAL AUDIT

The Group's Internal Audit function is carried out by the Group Internal Audit Division.

During the financial year ended 30 June 2010, the Group Internal Audit Division carried out its duties covering business audit, system and financial audit.

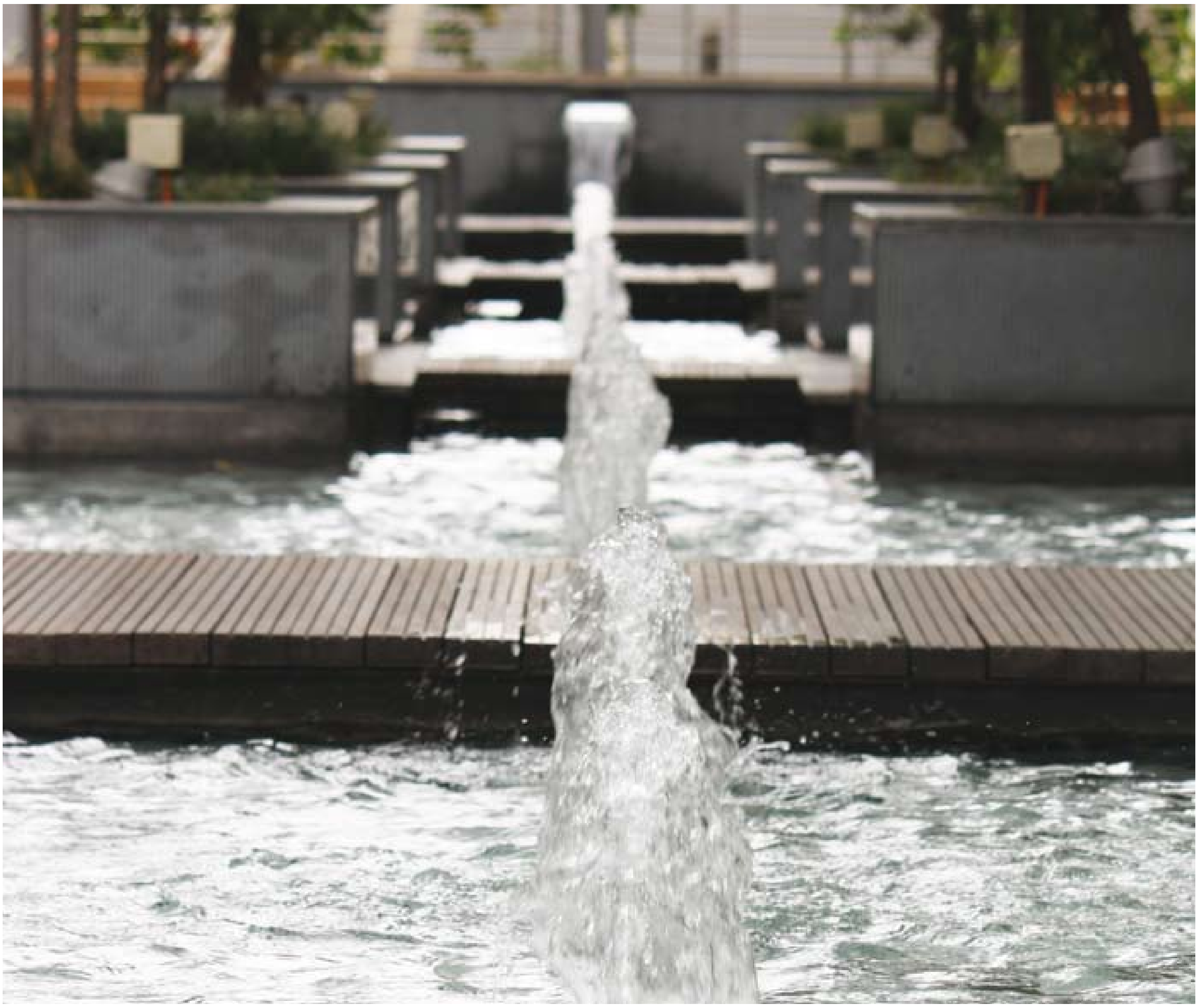
The cost incurred for the Internal Audit function in respect of the financial year ended 30 June 2010 was RM570,000.

This BARMC Report is made in accordance with the resolution of the Board of Directors.

# Corporate Governance and 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



# Corporate Governance and Internal Control
(continued)

The Board of Directors ("the 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

### I 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.

The role and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM from time to time.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia.

### II Board Balance

The Board comprises of six (6) Directors, all of whom are non-executive whilst three (3) 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 Company.

The Board has identified YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, the Chairman of the Board Audit and Risk Management Committee ("BARMC"), as the Independent Non-Executive Director of the Board to whom concerns may be conveyed, and who would bring the same to the attention of the Board.

### III Board Meetings

The Board met four (4) times during the financial year ended 30 June 2010 with timely notices of issues to be discussed. Details of attendance of each director are disclosed in the Directors' Profile in the Annual Report. At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

### IV Supply of Information

All Board members are supplied with information in 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, performance of the Company 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 and Internal Auditors. All directors also have access to independent professional advice at the Company's expense in consultation with the Chairman of the Company.

### V Appointments to the Board

The Nominating Committee ("NC") was established on 30 October 2008 and the members are as follows:-

| | |
|---|---|
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | *(Chairman, Independent Non-Executive Director)* |
| YBhg Tan Sri Quek Leng Chan | *(Non-Independent Non-Executive Director)* |
| YBhg Dato' Ahmad Fuaad Bin Mohd Dahalan | *(Independent Non-Executive Director)* |
| YBhg Dato' Mohamed Nazim bin Abdul Razak | *(Independent Non-Executive Director)* |
| Encik Omar bin Zolkifli | *(Independent Non-Executive Director)* *(Resigned on 29.10.2009)* |
| Mr Choong Yee How | *(Non-Independent Non-Executive Director)* *(Appointed on 11.12.2009)* |

# Corporate Governance and Internal Control
(continued)

## A. DIRECTORS (continued)

### V Appointments to the Board (continued)

The NC's functions and responsibilities are set out in the terms of reference as follows:-

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

The NC reviews the membership of the Board, the professional qualifications and experience of the directors and the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills. The NC also reviews the performance of the Board against its terms of reference.

During the financial year ended 30 June 2010, two NC meetings were held and save for YBhg Dato' Mohamed Nazim bin Abdul Razak, who attended one out of the two meetings, the members attended all the meetings held during their office as NC members.

### VI Re-appointment and Re-election

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

Pursuant to Section 129(6) of the Companies Act, 1965, directors who are over the age of seventy (70) years shall retire at every Annual General Meeting ("AGM") and may offer themselves for re-appointment as directors of the Company to hold office until the conclusion of the next AGM.

### VII Training and Education

All Directors of the Company have completed the Mandatory Accreditation Programme.

As part of the training programme for its Directors, the Company has prepared for the use of its Directors the Director Manual, and regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge.

The Director Manual which is given to every Director for their reference, highlights, amongst others, the major duties and responsibilities of a director vis-à-vis various laws, regulations and guidelines governing the same. New directors will also be given a briefing on the businesses of the Group.

During the financial year ended 30 June 2010, the Directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any new or changes to the companies and other relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its directors and senior management.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as directors.

# Corporate Governance and Internal Control
(continued)

## A. DIRECTORS (continued)

### VII Training and Education (continued)

During the financial year ended 30 June 2010, the Directors of the Company attended the following training programmes, seminars, briefings and/or workshops.

- Financial Institutions Directors' Education Programme
- Competency As The Backbone Of Transformation
- Managing Risks on Mortgage Financing
- Latest Risk Faced By Audit Committee
- Securities Commission-Bursa Malaysia Corporate Governance Week 2010
  - Statement On Risk Management And Internal Control
  - Stroking The Fire Of Corporate Governance
  - Boardroom Ethics
  - Board Role, Directors Duties and Blind Spots, Biases And Other Pathologies In The Boardroom

## B. DIRECTORS' REMUNERATION

### I Level and make-up of remuneration

The Remuneration Committee ("RC") was established on 30 October 2008 and the members are as follows:-

| | |
|---|---|
| YBhg Dato' Mohamed Nazim Bin Abdul Razak | *(Chairman, Independent Non-Executive Director)* |
| YBhg Tan Sri Quek Leng Chan | *(Non-Independent Non-Executive Director)* |
| Encik Omar bin Zolkifli | *(Independent Non-Executive Director)*<br>*(Resigned on 29.10.2009)* |
| YBhg Dato' Ahmad Fuaad bin Mohd Dahalan | *(Independent Non-Executive Director)*<br>*(Appointed on 11.12.2009)* |

The RC's functions and responsibilities are set out in the terms of reference 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.

During the financial year ended 30 June 2010, one (1) RC meeting was held and all members attended the meeting.

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.

### II Procedure

The Remuneration Committee, in assessing and reviewing the remuneration packages of executive directors, ensures a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are 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 Company at its AGM.

# Corporate Governance and Internal Control
(continued)

## B. DIRECTORS' REMUNERATION (continued)

### III Disclosure

The aggregate remuneration of Directors (including remuneration earned as directors of subsidiaries) for the financial year ended 30 June 2010 is as follows:

| | Fees (RM) | Salaries & Other Emoluments (inclusive bonuses and benefits-in-kind) (RM) | Total (RM) |
|---|---|---|---|
| Executive Directors | - | - | - |
| Non-Executive Directors | 463,013 | 106,242 | 569,255 |

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 | - | 1 |
| 50,001 – 100,000 | - | 5 |
| 150,001 – 200,000 | - | 1 |

## C. SHAREHOLDERS

### I 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 financial year, through which shareholders and investors can have an overview of the Group's performance and operations.

The Company has a website at www.hlgcap.com.my which the shareholders can access for corporate information, including announcements made to Bursa Malaysia Securities Berhad by the Company.

In addition, the Group Financial Controller could provide shareholders and investors with a channel of communication in which they can provide feedback to the Group.

Queries may be conveyed to the following person:

Name : Mr Lau Yew Sun
Tel No : 03-21682611
Fax No : 03-21612815
e-mail address : YSLau@hlgs.hongleong.com.my

### II 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. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM.

# Corporate Governance and Internal Control
(continued)

## D. ACCOUNTABILITY AND AUDIT

The BARMC was established on 23 March 1994 as Board Audit Committee and had been re-designated as the BARMC on 29 August 2001. The financial reporting and internal control system of the Group are overseen by the BARMC, which comprises three (3) Non-Executive Directors. The primary responsibilities of the BARMC are set out in the BARMC Report.

The BARMC met four (4) times during the financial year ended 30 June 2010. The attendance of the members are set out in the BARMC Report. The Group Financial Controller, Head of Internal Audit, Head of Compliance, Head of Risk Management and the CEO may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meeting. Where the Committee is considering a matter in which a Committee member has an interest, such member abstains from deliberating and voting on the subject matter.

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.

### I 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.

### II 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.

The Statement on Internal Control as detailed under paragraph E of this Statement provides an overview of the state of internal controls within the Group.

### III 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.

The external auditors meet with the BARMC members at least twice a year without the presence of executive directors and management.

# Corporate Governance and Internal Control
(continued)

## E. STATEMENT ON INTERNAL CONTROL

### I The responsibility of the Board

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

The controls built into the Risk Management Framework of the 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 the Group's financial position or its operations.

### II The Risk Management Framework

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

- identifying the significant risks faced by the 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 the Group.

The Head of Risk Management administers the Risk Management Framework of the Group. The primary responsibilities of the Head of Risk Management 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 the Group.

In discharging the above responsibilities, the Head of Risk Management is guided by but not limited to the questions raised in the Appendix to the *Statement on Internal Control - Guidance for Directors of Public Listed Companies.*

### III Internal control review and regulatory compliance procedures

The 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 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 the Group. This is to provide reasonable assurance to the Board on the proper functioning of the Risk Management Framework.

# Corporate Governance and Internal Control
(continued)

## E. STATEMENT ON INTERNAL CONTROL (continued)

### III Internal control review and regulatory compliance procedures (continued)

The 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.

### IV 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 the Group.

The vision and mission statements of the 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 the Group will only be made after being reviewed by the BARMC and approved by the Board.

The Group has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The respective heads of the operating subsidiaries of the 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 by operating procedures developed by the operating units to suit the regulatory and business environment, in which they operate.

The 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. Action plans are developed at each operating unit to manage and monitor these risks. 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.

## F. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The Main Market Listing Requirements of Bursa Malaysia Securities Berhad require the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of its financial performance and cash flows of the Group and of the Company for the financial year.

The directors are satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 30 June 2010, 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.

This Statement on Corporate Governance and Internal Control is made in accordance with the resolution of the Board of Directors.

# Directors' Report
## for the financial year ended 30 June 2010

The Directors hereby submit their report together with the audited financial statements of the Group and the Company for the financial year ended 30 June 2010.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are investment banking, stock broking, unit trust management, fund management, futures broking and nominee services as disclosed in Note 11 to the financial statements.

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

### FINANCIAL RESULTS

| | The Group | The Company |
|---|---|---|
| | RM'000 | RM'000 |
| Net profit/(loss) for the financial year | 14,254 | (451) |

### DIVIDEND

No dividends have been paid, declared or proposed by the Company since the end of the previous financial year.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2010.

### SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 46 to the financial statements.

### SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

Significant events subsequent to the balance sheet date are disclosed in Note 47 to the financial statements.

### RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are disclosed in the financial statements.

### DIRECTORS

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

| | |
|---|---|
| YBhg Tan Sri Quek Leng Chan | *(Chairman, Non-Independent Non-Executive Director)* |
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | *(Independent Non-Executive Director)* |
| YBhg Dato' Mohamed Nazim bin Abdul Razak | *(Independent Non-Executive Director)* |
| YBhg Dato' Ahmad Fuaad bin Mohd Dahalan | *(Independent Non-Executive Director)* |
| Mr Choong Yee How | *(Non-Independent Non-Executive Director)* |
| Mr Quek Kon Sean | *(Non-Independent Non-Executive Director)* |
| Encik Omar bin Zolkifli<br>*(Resigned on 29/10/2009)* | *(Independent Non-Executive Director)* |

# Directors' Report
## for the financial year ended 30 June 2010
(continued)

**DIRECTORS** (continued)

In accordance with Article 116 of the Company's Articles of Association, YBhg Tan Sri Quek Leng Chan and YBhg Dato' Mohamed Nazim bin Abdul Razak retire by rotation at the forthcoming Annual General Meeting ("AGM") and being eligible, offer themselves for re-election.

In accordance with Section 129 of the Companies Act, 1965, YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman retires at the forthcoming AGM and being eligible, offers himself for re-appointment.

**DIRECTORS' INTERESTS**

The Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares/options/convertible bonds in the Bank and/or related corporations during the financial year ended 30 June 2010, as bonds recorded in the Register of Directors' Shareholdings kept by the Bank under Section 134 of the Companies Act, 1965 are as follows:

| | Shareholdings in which Directors have direct interests Number of ordinary shares/preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds | | | | |
|---|---|---|---|---|---|
| | Nominal value per share RM | As at 01.07.2009 | Acquired | Sold | As at 30.6.2010 |
| **Interests of YBhg Tan Sri Quek Leng Chan in:** | | | | | |
| Hong Leong Company (Malaysia) Berhad | 1.00 | 390,000 | - | - | 390,000 |
| Hong Leong Financial Group Berhad | 1.00 | 4,989,600 | - | - | 4,989,600 |
| Hume Industries (Malaysia) Berhad | 1.00 | 2,000,000 | - | 2,000,000 ✧ | - |
| Narra Industries Berhad | 1.00 | 8,150,200 | - | - | 8,150,200 |
| Guoco Group Limited | USD$0.50 | 1,656,325 | - | 600,000 | 1,056,325 |
| GuocoLand Limited | ∞ | 20,062,965 | - | 10,062,965 | 10,000,000 |
| GuocoLand (Malaysia) Berhad | 0.50 | 19,506,780 | - | - | 19,506,780 |
| GuocoLeisure Limited | USD$0.20 | 735,000 | - | - | 735,000 |
| **Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | 5,544,000 | - | - | 5,544,000 |
| Hong Leong Bank Berhad | 1.00 | 400,000 | - | - | 400,000 |
| Hong Leong Industries Berhad | 0.50 | 52,800 | - | - | 52,800 |
| Hume Industries (Malaysia) Berhad | 1.00 | 167 | - | 167 | - |
| Malaysian Pacific Industries Berhad | 0.50 | 1,000 | - | - | 1,000 |
| **Interest of Mr Choong Yee How in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | 8,000,000 * | - | 1,200,000 ~ | 6,800,000 * |
| **Interest of Mr Quek Kon Sean in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | 2,500,000 * | - | 375,000 ~ | 2,125,000 * |

# Directors' Report

## for the financial year ended 30 June 2010 (continued)

**DIRECTORS' INTERESTS** (continued)

| | Shareholdings in which Directors have indirect interests Number of ordinary shares/preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds | | | | |
|---|---|---|---|---|---|
| | Nominal value per share RM | As at 01.07.2009 | Acquired | Sold | As at 30.6.2010 |
| **Interests of YBhg Tan Sri Quek Leng Chan in:** | | | | | |
| Hong Leong Company (Malaysia) Berhad | 1.00 | 13,019,100 | - | - | 13,019,100 |
| Hong Leong Fund Management Sdn Bhd | 1.00 | 1,400,000 | 600,000 | - | 2,000,000 ### |
| Hong Leong Financial Group Berhad | 1.00 | 824,437,300 | - | - | 824,437,300 |
| HLG Capital Berhad | 1.00 | 92,590,545 | 107,072,682 | 4,400,000 | 195,263,227 |
| Hong Leong Bank Berhad | 1.00 | 965,745,100 | 1,994,500 | - | 967,739,600 |
| Hong Leong Tokio Marine Takaful Berhad | 1.00 | 65,000,000 | - | - | 65,000,000 |
| Hong Leong Industries Berhad | 0.50 | 195,413,037 @@ | 2,856,800 | - | 198,269,837 @@ |
| Hong Leong Yamaha Motor Sdn Bhd | 1.00 | 17,352,872 | - | - | 17,352,872 |
| Guocera Tile Industries (Meru) Sdn Bhd | 1.00 | 19,600,000 | - | - | 19,600,000 |
| Hong Leong Maruken Sdn Bhd (In Members' Voluntary Liquidation) | 1.00 | 1,750,000 | - | - | 1,750,000 |
| Guocera Tile Industries (Labuan) Sdn Bhd | 1.00 | 6,545,001 | - | - | 6,545,001 |
| Varinet Sdn Bhd (In Members' Voluntary Liquidation) | 1.00 | 10,560,627 | - | - | 10,560,627 |
| RZA Logistics Sdn Bhd | 1.00 | 7,934,247 | - | - | 7,934,247 |
| Malaysian Pacific Industries Berhad | 0.50 | 127,683,309 | 5,917,700 | - | 133,601,009 |
| Carter Realty Sdn Bhd | 1.00 | 7 | - | - | 7 |
| Carsem (M) Sdn Bhd | 1.00 | 84,000,000 | - | - | 84,000,000 |
| | 100.00 | 22,400 ## | - | - | 22,400 ## |
| Hume Industries (Malaysia) Berhad | 1.00 | 121,881,628 | 183,278,071 ~~ | 122,216,828 ✧ | 182,942,871 ### |
| Narra Industries Berhad | 1.00 | 38,314,000 | - | - | 38,314,000 |
| Guoco Group Limited | USD$0.50 | 235,198,529 | 600,000 | - | 235,798,529 |
| GuocoLand Limited | ∞ | 579,024,320 | 55,108,954 @@ | 20,000,000 | 614,133,274 @@ |
| | | 20,973,293 * | 817,139 * | 13,328,486 *Δ | 8,461,946 * |
| First Garden Development Pte Ltd | ∞ | 63,000,000 | - | - | 63,000,000 |
| Santuary Land Pte Ltd | ∞ | 90,000 | - | - | 90,000 |
| Beijing Minghua Property Development Co Ltd (In Members' Voluntary Liquidation) | ^ | 150,000,000 | - | - | 150,000,000 |
| Shanghai Xinhaozhong Property Development Co., Ltd | # | 19,600,000 | - | - | 19,600,000 |

# Directors' Report

for the financial year ended 30 June 2010
(continued)

**DIRECTORS' INTERESTS** (continued)

| | Shareholdings in which Directors have indirect interests<br>Number of ordinary shares/preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds | | | | |
|---|---|---|---|---|---|
| | Nominal value per share RM | As at 01.07.2009 | Acquired | Sold | As at 30.6.2010 |
| **Interests of YBhg Tan Sri Quek Leng Chan in:** (continued) | | | | | |
| Beijing Jiang Sheng Property Development Co., Ltd | ^ | 247,600,000 | 2,400,000 | - | 250,000,000 ### |
| Nanjing Xinhaoning Property Development Co., Ltd | # | 11,800,800 | - | - | 11,800,800 |
| Nanjing Xinhaoxuan Property Development Co., Ltd | # | 11,800,800 | - | - | 11,800,800 |
| Nanjing Mahui Property Development Co., Ltd | ^ | 271,499,800 | - | - | 271,499,800 |
| Beijing Cheng Jian Dong Hua Real Estate Development Company Limited | ^ | 50,000,000 | - | - | 50,000,000 |
| Lam Soon (Hong Kong) Limited | HK$1.00 | 140,008,659 | - | - | 140,008,659 |
| Kwok Wah Hong Flour Company Limited | HK$100.00 | 9,800 | - | - | 9,800 |
| M.C. Packaging Offshore Limited | HK$0.01 | 812,695 | - | - | 812,695 |
| Guangzhou Lam Soon Food Products Limited | Ω | 6,570,000 | - | - | 6,570,000 |
| GuocoLand (Malaysia) Berhad | 0.50 | 466,555,616 @@ | - | - | 466,555,616 @@ |
| Guoman Hotel & Resort Holdings Sdn Bhd | 1.00 | 277,000,000 | - | - | 277,000,000 |
| JB Parade Sdn Bhd | 1.00 | 28,000,000 | - | - | 28,000,000 |
| | | 68,594,000 ## | - | - | 68,594,000 ## |
| GuocoLeisure Limited | USD$0.20 | 779,248,202 | 128,561,223 | - | 907,809,425 |
| Bondway Properties Limited (In Members' Voluntary Liquidation) | GBP1.00<br>GBP1.00 | 1,134,215 ¤<br>10,332 ¤¤ | -<br>- | -<br>- | 1,134,215 ¤<br>10,332 ¤¤ |
| **Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | 3,600 N1 | - | - | 3,600 N1 |
| HLG Capital Berhad | 1.00 | 100,000 N1 | - | - | 100,000 N1 |
| **Interests of Quek Kon Sean in:** | | | | | |
| Hong Leong Industries Berhad | 0.50 | 750,000 | - | - | 750,000 |

# Directors' Report

for the financial year ended 30 June 2010
(continued)

## DIRECTORS' INTERESTS (continued)

Legend:

∞ Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
^ Capital contribution in RMB
# Capital contribution in USD
Ω Capital contribution in HK$
Δ Inclusive of redemption and cancellation of convertible bonds
@@ Inclusive of shares held by children who are not directors of the Company
## Redeemable Preference Shares
### Became a wholly-owned subsidiary during the financial year
¤ Ordinary-Voting Shares
¤¤ Ordinary-Non Voting Shares
~ Share options lapsed
~~ Inclusive of acceptance received for shares in respect of voluntary take-over offer
✧ Acceptance of voluntary take-over offer
N1 Indirect interest through spouse and/or children pursuant to Section 134(12)(c) of the Companies Act, 1965

## DIRECTORS' BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 32 to the financial statements or the fixed salary of a full-time employee of the Company or of a related corporation) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for:

(a) YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares, stocks in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or the provision of services, including but not limited to project and sales management and any other management and consultancy services; and/or the provision of construction contracts, leases, tenancy, dealership and distributorship agreements; and/or the provision of treasury functions, advances and the conduct of normal trading, insurance, investment, stock broking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have an interest; and

(b) Encik Omar bin Zolkifli who may be deemed to derive a benefit by virtue of those transactions in connection with the provision of insurance broking services by BIB Insurance Brokers Sdn Bhd to the Company and its related corporations in which both Directors have interests.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the share options granted pursuant to the Executive Share Option Scheme.

## EXECUTIVE SHARE OPTION SCHEME ("ESOS" OR "SCHEME")

The Executive Share Option Scheme ("ESOS") of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company which was approved by the shareholders of the Company on 8 November 2005 was established on 23 January 2006 and shall be in force for a period of ten (10) years.

Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the Group to participate in the equity of the Company.

The main features of the ESOS are, inter alia, as follows:

1. Eligible executives are those executives of the Group who have been confirmed in service on the date of offer or directors (executive or non-executive) of the Company and its subsidiaries. The maximum allowable allotments for the full time executive directors had been approved by the shareholders of the Company in a general meeting. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options.

# Directors' Report

for the financial year ended 30 June 2010
(continued)

## EXECUTIVE SHARE OPTION SCHEME ("ESOS" OR "SCHEME") (continued)

2. The aggregate number of shares to be issued under the ESOS shall not exceed 15% of the issued and paid-up ordinary share capital of the Company for the time being.

3. The Scheme shall be in force for a period of ten (10) years from 23 January 2006.

4. The option price shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the date of offer and shall in no event be less than the par value of the shares of the Company.

5. The option granted to an option holder under the ESOS is exercisable by the option holder only during his employment with the HLG Capital Berhad Group and within the option exercise period subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESOS.

6. The exercise of the options may, at the absolute discretion of the Board of Directors of the Company, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESOS; or a combination of both new shares and existing shares.

Pursuant to this, a trust has been set up for the ESOS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust. In accordance with FRS 132, the shares purchased for the benefit of the ESOS holdings are recorded as "Treasury Shares for ESOS Scheme" in equity on the balance sheet. The cost of operating the ESOS scheme is charged to the income statement.

The trustee will manage the trust in accordance with the trust deed. Upon termination of the trust, the trustee will dispose all remaining trust shares, if any, and deal with any surplus or deficit of the trust in accordance with the instructions of the Company.

There were no options granted during the financial year.

## SHARE CAPITAL

During the financial year, the Company issued 123,448,334 ordinary shares of RM1.00 each at an issue price of RM1.00 per ordinary share.

As at 30 June 2010, the issued and fully paid-up share capital of the Company is RM246,896,668 comprising 246,896,668 ordinary shares of RM1.00 each.

## STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

**(a) As at the end of the financial year**

(i) Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

- to ensure that any current assets, other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(ii) In the opinion of the Directors, the results of the operations of the Group and the Bank during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature.

# Directors' Report

for the financial year ended 30 June 2010
(continued)

## STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (continued)

**(b) From the end of the financial year to the date of this report**

(i) The Directors are not aware of any circumstances:

- which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;
- which would render the values attributed to current assets in the financial statements misleading; and
- which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

(ii) In the opinion of the Directors:

- the results of the operations of the Group and the Company for the financial year ended 30 June 2010 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet their obligations as and when they fall due.

**(c) As at the date of this report**

(i) There are no charges on the assets of the Group and the Company which had arisen since the end of the financial year to secure the liabilities of any other person.

(ii) There are no contingent liabilities which had arisen since the end of the financial year.

(iii) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

## HOLDING AND ULTIMATE HOLDING COMPANIES

The holding and ultimate holding companies are Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

## AUDITORS

The auditors, Messrs PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 30 July 2010.

**TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN** **CHOONG YEE HOW**

Kuala Lumpur
**8 September 2010**

# Balance Sheets

as at 30 June 2010

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Assets** | | | | | |
| Cash and short term funds | 2 | 722,645 | 317,387 | 230 | 4,668 |
| Deposits and placements with banks and other financial institutions | 3 | 45,070 | 73 | - | - |
| Securities held at fair value through profit or loss | 4 | 431,783 | 6,443 | 372 | 342 |
| Available-for-sale securities | 5 | 2,445 | 2,445 | - | - |
| Held-to-maturity securities | 6 | 10,000 | - | - | - |
| Loans and advances | 7 | 117,926 | 82,339 | - | - |
| Clients' and brokers' balances | 8 | 88,798 | 145,762 | - | - |
| Other receivables | 9 | 17,245 | 13,854 | 2,869 | 11,148 |
| Statutory deposits with Bank Negara Malaysia | 10 | 4,000 | - | - | - |
| Tax recoverable | | 810 | 644 | 2,312 | 1,363 |
| Investment in subsidiary companies | 11 | - | - | 270,189 | 270,189 |
| Deferred tax assets | 12 | 53,038 | 58,455 | - | - |
| Prepaid lease payments | 13 | 1,131 | 1,132 | - | - |
| Property and equipment | 14 | 5,803 | 4,750 | - | - |
| Goodwill | 15 | 33,059 | 32,823 | - | - |
| Intangible assets | 16 | 1,339 | 982 | - | - |
| **Total assets** | | 1,535,092 | 667,089 | 275,972 | 287,710 |
| **Liabilities** | | | | | |
| Deposits from customers | 17 | 31,218 | - | - | - |
| Deposits and placements of banks and other financial institutions | 18 | 600,990 | 9,820 | - | - |
| Clients' and brokers' balances | 20 | 262,415 | 279,029 | - | - |
| Payables and other liabilities | 21 | 314,189 | 55,236 | 666 | 771 |
| Provision for taxation | | 204 | - | - | - |
| Borrowings | 22 | 22,000 | 146,900 | 22,000 | 146,900 |
| **Total liabilities** | | 1,231,016 | 490,985 | 22,666 | 147,671 |
| **Capital and reserves** | | | | | |
| Share capital | 23 | 246,896 | 123,448 | 246,896 | 123,448 |
| Reserves | 24 | 70,383 | 56,629 | 19,613 | 20,564 |
| Treasury shares for ESOS scheme | 25 | (13,203) | (3,973) | (13,203) | (3,973) |
| **Total equity** | | 304,076 | 176,104 | 253,306 | 140,039 |
| **Total equity and liabilities** | | 1,535,092 | 667,089 | 275,972 | 287,710 |
| **Commitments and contingencies** | 36 | 3,492,940 | 327,475 | - | - |

# Income Statements

## for the financial year ended 30 June 2010

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Interest income | 26 | **15,998** | 8,315 | **205** | 239 |
| Interest expense | 27 | **(6,279)** | (3,670) | **(2,182)** | (3,239) |
| Net interest income | | **9,719** | 4,645 | **(1,977)** | (3,000) |
| Non-interest income | 28 | **75,740** | 55,484 | **4,162** | 4,333 |
| | | **85,459** | 60,129 | **2,185** | 1,333 |
| Overhead expenses | 29 | **(63,972)** | (47,962) | **(2,636)** | (1,392) |
| Operating profit/(loss) before allowances | | **21,487** | 12,167 | **(451)** | (59) |
| (Allowance for)/Writeback of losses on loans and advances and other losses | 30 | **(1,041)** | 1,461 | **-** | - |
| Impairment of goodwill | 31 | **-** | (57,236) | **-** | - |
| Profit/(Loss) before taxation | | **20,446** | (43,608) | **(451)** | (59) |
| Tax (expense)/income | 33 | **(6,192)** | 56,082 | **-** | 919 |
| Net profit/(loss) for the financial year | | **14,254** | 12,474 | **(451)** | 860 |
| **Earnings per share (sen)** | | | | | |
| - Basic/Fully diluted | 34 | **6.0** | 10.4 | | |

# Statements of Changes in Equity

## for the financial year ended 30 June 2010

| The Group | Note | Share capital RM'000 | Treasury shares for ESOS scheme RM'000 | Statutory reserve RM'000 | General reserve RM'000 | Retained profits RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| | | ← Attributable to equity holder of the Company → | | | | | |
| At 1 July 2009 | | 123,448 | (3,973) | 4,362 | 543 | 51,724 | 176,104 |
| Profit after taxation | | - | - | - | - | 14,254 | 14,254 |
| Total income and expense recognised for the financial year | | - | - | - | - | 14,254 | 14,254 |
| Issued during the year | 23 | 123,448 | - | - | - | - | 123,448 |
| Rights issue expenses | | - | - | - | - | (500) | (500) |
| Transfer to statutory reserve | | - | - | 6,682 | - | (6,682) | - |
| Purchase of shares for ESOS scheme | | - | (9,230) | - | - | - | (9,230) |
| At 30 June 2010 | | 246,896 | (13,203) | 11,044 | 543 | 58,796 | 304,076 |
| | | | | | | | |
| At 1 July 2008 | | 123,448 | (3,568) | - | 543 | 50,334 | 170,757 |
| Profit after taxation | | - | - | - | - | 12,474 | 12,474 |
| Total income and expense recognised for the financial year | | - | - | - | - | 12,474 | 12,474 |
| Transfer to statutory reserve | | - | - | 4,362 | - | (4,362) | - |
| Purchase of shares for ESOS scheme | | - | (405) | - | - | - | (405) |
| Dividends paid | 35 | - | - | - | - | (6,722) | (6,722) |
| At 30 June 2009 | | 123,448 | (3,973) | 4,362 | 543 | 51,724 | 176,104 |

# Statements of Changes in Equity
## for the financial year ended 30 June 2010
(continued)

| | | ← Non - Distributable | → | ◄ Distributable ► | |
|---|---|---|---|---|---|
| **The Company** | **Note** | **Share capital RM'000** | **Treasury shares for ESOS scheme RM'000** | **Retained profits RM'000** | **Total RM'000** |
| At 1 July 2009 | | 123,448 | (3,973) | 20,564 | 140,039 |
| Loss after taxation | | - | - | (451) | (451) |
| Total income and expense recognised for the financial year | | - | - | (451) | (451) |
| Issued during the year | 23 | 123,448 | - | - | 123,448 |
| Rights issue expenses | | - | - | (500) | (500) |
| Purchase of shares for ESOS scheme | | - | (9,230) | - | (9,230) |
| At 30 June 2010 | | 246,896 | (13,203) | 19,613 | 253,306 |
| | | | | | |
| At 1 July 2008 | | 123,448 | (3,568) | 26,426 | 146,306 |
| Profit after taxation | | - | - | 860 | 860 |
| Total income and expense recognised for the financial year | | - | - | 860 | 860 |
| Purchase of shares for ESOS scheme | | - | (405) | - | (405) |
| Dividends paid | 35 | - | - | (6,722) | (6,722) |
| At 30 June 2009 | | 123,448 | (3,973) | 20,564 | 140,039 |

# Consolidated Cash Flow Statements

for the financial year ended 30 June 2010

| | | The Group | |
|---|---|---|---|
| | Note | 2010 RM'000 | 2009 RM'000 |
| **Cash flows from operating activities** | | | |
| Profit/(Loss) before taxation | | 20,446 | (43,608) |
| Adjustments for: | | | |
| Impairment loss | | - | 57,236 |
| Depreciation of property and equipment | | 1,875 | 1,534 |
| Amortisation of prepaid lease payments | | 1 | 1 |
| Amortisation of intangible assets | | 677 | 372 |
| Gain on sale of property and equipment | | (321) | (73) |
| Unrealised (gain)/loss on revaluation of securities held at fair value through profit or loss | | (1,478) | 945 |
| Allowances for losses on loans and advances | | 709 | 1,214 |
| Allowance for/(writeback of) losses on clients' and brokers' balances | | 373 | (2,675) |
| Interest income from securities held at fair value through profit or loss | | (2,603) | - |
| Interest income from available-for-sale securities | | (2,328) | - |
| Interest income from held-to-maturity securities | | (292) | - |
| Interest expense | | 2,332 | 3,476 |
| Dividend income | | (635) | (1,085) |
| | | (1,690) | 60,945 |
| **Operating profit before working capital changes** | | 18,756 | 17,337 |
| **(Increase)/decrease in operating assets** | | | |
| Deposits and placements with banks and other financial institutions | | (44,997) | (43) |
| Securities held at fair value through profit or loss | | (423,862) | (354) |
| Held-to-maturity securities | | (10,000) | - |
| Loans and advances | | (36,296) | (14,157) |
| Clients' and brokers' balances | | 58,922 | 33,924 |
| Other receivables | | 614 | 355 |
| Statutory deposits with Bank Negara Malaysia | | (4,000) | - |
| **Increase/(decrease) in operating liabilities** | | | |
| Deposits from customers | | 31,218 | (603) |
| Deposits and placements of banks and other financial institutions | | 591,170 | (37,976) |
| Clients' and brokers' balances | | (16,614) | (2,095) |
| Payables and other liabilities | | 258,423 | (34,033) |
| | | 404,578 | (54,982) |

# Consolidated Cash Flow Statements

for the financial year ended 30 June 2010
(continued)

| | | The Group | |
|---|---|---|---|
| | Note | 2010 RM'000 | 2009 RM'000 |
| **Cash generated from/(used in) operations** | | **423,334** | (37,645) |
| Net income tax paid | | **(737)** | (1,399) |
| **Net cash generated from/(used in) operating activities** | | **422,597** | (39,044) |
| **Cash flows from investing activities** | | | |
| Dividends received | | **635** | - |
| Interest received on held at fair value through profit or loss, available-for-sale and held-to-maturity securities | | **1,218** | - |
| Proceeds from disposal of property and equipment | | **475** | 118 |
| Purchase of property and equipment | | **(3,082)** | (1,238) |
| Purchase of intangible assets - computer software | | **(1,034)** | (717) |
| Goodwill arising from capitalisation of merger cost | | **(236)** | - |
| Acquisition of SBBS, net cash acquired | | **-** | (27,817) |
| Acquisition of SIBB, net cash acquired | | **-** | (48,152) |
| **Net cash used in investing activities** | | **(2,024)** | (77,806) |
| **Cash flows from financing activities** | | | |
| Dividend paid | | **-** | (6,722) |
| Interest paid on borrowings | | **(1,802)** | (3,476) |
| Purchase of treasury shares for ESOS scheme | | **(9,230)** | (405) |
| Net cash from rights issue | | **122,948** | - |
| (Repayment)/Drawdown of borrowings | | **(124,900)** | 122,300 |
| **Net cash (used in)/generated from financing activities** | | **(12,984)** | 111,697 |
| **Net increase/(decrease) in cash and cash equivalents** | | **407,589** | (5,153) |
| **Cash and cash equivalents at beginning of year** | | **107,853** | 113,006 |
| **Cash and cash equivalents at end of year** | | **515,442** | 107,853 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and short term funds | 2 | **722,645** | 317,387 |
| Less: Remisiers' and clients' trust monies | | **(207,203)** | (209,534) |
| | | **515,442** | 107,853 |

# Company Cash Flow Statements

for the financial year ended 30 June 2010

| | Note | The Company 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | (451) | (59) |
| Adjustments for: | | | |
| Unrealised gain on securities held at fair value through profit or loss | | (30) | (13) |
| Interest expense | | 2,182 | 3,239 |
| Interest income | | (205) | (239) |
| Dividend income from subsidiary companies | | (4,122) | (4,310) |
| | | (2,175) | (1,323) |
| **Operating loss before working capital changes** | | (2,626) | (1,382) |
| Decrease/(Increase) in receivables | | 8,279 | (10,662) |
| Decrease in payables | | (23) | (10) |
| **Cash generated from/(used in) operating activities** | | 5,630 | (12,054) |
| Income tax refund | | - | 1,153 |
| Interest received | | 205 | 239 |
| **Net cash generated from/(used in) operating activities** | | 5,835 | (10,662) |
| **Cash flows from investing activities** | | | |
| Dividend income from subsidiary companies | | 3,173 | 3,233 |
| Increase in investment in a subsidiary | | - | (123,000) |
| Purchase of available-for-sale securities | | - | (100) |
| Purchase of treasury shares for ESOS scheme | | (9,230) | (405) |
| **Net cash used in investing activities** | | (6,057) | (120,272) |
| **Cash flows from financing activities** | | | |
| Dividend paid | | - | (6,722) |
| Net cash from rights issue | | 122,948 | - |
| Interest paid on borrowings | | (2,264) | (3,239) |
| (Repayment)/Drawdown of borrowings | | (124,900) | 122,300 |
| **Net cash (used in)/generated from financing activities** | | (4,216) | 112,339 |
| **Net decrease in cash and cash equivalents** | | (4,438) | (18,595) |
| **Cash and cash equivalents at beginning of year** | | 4,668 | 23,263 |
| **Cash and cash equivalents at end of year** | | 230 | 4,668 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and short term funds | 2 | 230 | 4,668 |

# Summary of Significant Accounting Policies
for the financial year ended 30 June 2010

All significant accounting policies set out below have been used consistently in dealing with items which are considered material in relation to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

## A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia ("BNM") Guidelines and comply with the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the management and Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 45.

**(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company and are effective is as follows:**

- FRS 8 Operating Segments (effective for accounting periods beginning on or after 1 July 2009). FRS 8 replaces FRS $114_{2004}$ Segment Reporting. The new standard requires a 'management approach', under which segment information is reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. The improvement to FRS 8 (effective from 1 January 2010) clarifies that entities that do not provide information about segment assets to the chief operating decision-maker will no longer need to report this information. Prior year comparatives must be restated. The adoption of the new accounting standard does not have any significant financial impact on the results of the Group and the Company.

**(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective and have not been early adopted.**

- IC Interpretation 10 Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 January 2010) prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC Interpretation 10 does not have any significant financial impact on the results of the Group and the Company.

- Amendments to FRS 101 Presentation of Financial Statement (effective for accounting periods beginning on or after 1 January 2010) separates owner and non-owner changes in equity and introduces the statement of comprehensive income. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The adoption of FRS 101 will require additional disclosure requirements for the Group's and the Company's financial statements.

- Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2010) allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method and requires investors to present dividends as income in the separate financial statements. The amendments do not have any significant financial impact on the results of the Group and the Company.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

**(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective and have not been early adopted** (continued).

- FRS 139 Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The improvement to FRS 139 clarifies that the scope exemption in FRS139 only applies to forward contracts but not options for business combination that are firmly committed to being completed within a reasonable timeframe. For banking subsidiary, BNM has on 8 January 2010 issued the revised BNM Garis Panduan ("GP3") – "Classification and Impairment Provisions for Loans/Financing", which sets out the minimum requirements on the classifications of impaired loans/financing and allowances for loan/financing impairment effective for annual accounting period beginning on or after 1 January 2010. The guideline also prescribes the use of an alternative basis for collective assessment of impairment for a transitional period for purpose of complying with the collective assessment of impairment requirement in FRS 139. The Group and the Company will apply this standard and BNM GP3 when effective. Nevertheless, the accounting policies of the Group and the Company incorporate requirements of the Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8') which includes selected principles of FRS 139.

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 January 2010) requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The improvement to IC Interpretation 9 (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture.

- FRS 7 Financial Instruments: Disclosure (effective for accounting periods beginning on or after 1 January 2010) replaces the disclosures requirements currently in FRS 132 Financial Instruments: Disclosures and Presentation. FRS 7 requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, market risk and liquidity risk. The improvement to FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the income statement.

  In respect of FRS 139, Improvement to FRS 139, IC Interpretation 9, FRS 7 and Improvement to FRS 7, the Group and the Company have applied the transitional provision in the respective standards which exempts the Group and the Company from disclosing the possible impact arising from the initial application of the standard and interpretation on the Group's and the Company's financial statements.

- Revised FRS 3 Business Combination (effective prospectively from 1 July 2010) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of the revised FRS 3 does not have any significant financial impact on the results of the Group and the Company.

- FRS 127 Consolidated and Separate Financial Statements (effective prospectively from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of FRS 127 does not have any significant financial impact on the results of the Group and the Company.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

(b) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective and have not been early adopted** (continued).

- Improvement to existing MASB's standards (effective for accounting periods beginning on or after 1 January 2010) are as follows:

  - FRS 5 Non-current Assets Held for Sale and Discontinued Operations. Improvement (effective from 1 January 2010) clarifies that FRS 5 disclosures apply to non-current assets or and discontinued operations. Improvement effective from 1 July 2010 clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met.

  - FRS 107 Statement of Cash Flows (effective from 1 January 2010) clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.

  - FRS 110 Events after the Balance Sheet Date (effective from 1 January 2010) reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.

  - FRS 116 Property, Plant and Equipment (effective from 1 January 2010) requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

  - FRS 117 Leases (effective from 1 January 2010) clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117.

  - FRS 127 Consolidated and Separate Financial Statements (effective from 1 January 2010) clarifies that where an investment in a subsidiary that is accounted for under FRS 139 is classified as held for sale under FRS 5, FRS 139 would continue to be applied.

  - FRS 134 Interim Financial Reporting (effective from 1 January 2010) clarifies that basic and diluted earnings per share ("EPS") must be presented in an interim report only in the case when the entity is required to disclose EPS in its annual report.

  - FRS 136 Impairment of Assets (effective from 1 January 2010) clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment before the aggregation of segments with similar economic characteristics. The improvement also clarifies that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use should be made.

The adoption of the above revised MASB accounting standards is not expected to have any significant financial impact on the results of the Group and the Company.

## B ECONOMIC ENTITIES IN THE GROUP

### (i) Subsidiaries

Subsidiaries are entities in which the Group has the power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than half of the voting rights.

Investment in subsidiaries is stated at cost less accumulated impairment losses. Where there is an indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## B ECONOMIC ENTITIES IN THE GROUP (continued)

### (i) Subsidiaries (continued)

The consolidated financial statements include the financial statements of the Group and all its subsidiaries made up to the end of the financial year.

Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Subsidiaries are consolidated using the purchase method of accounting, except for business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006 which were accounted for using merger accounting principles.

Under the purchase method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition up to the date of disposal. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves. Under this method, the comparatives are not restated for the presentation in the financial statements.

All material transactions and balances between group companies are eliminated and the consolidated financial statements reflect external transactions only. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with the carrying amount of the goodwill as of the date of disposal is recognised in the consolidated income statement.

## C GOODWILL

Goodwill represents the excess of the cost of acquisition of subsidiaries over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units ('CGU') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose. Refer to Note R on impairment of non-financial assets.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## D PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses (if any). Depreciation of property and equipment is calculated to write off the cost of property and equipment to their residual values over the estimated useful lives, summarised as follows:

| | |
|---|---|
| Leasehold buildings | Over the remaining period of the lease or 50 years whichever is shorter |
| Office and computer equipment | 20% |
| Furniture and fittings | 20%-33% |
| Office Renovation | 20% |
| Motor vehicles | 20% |

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Property and equipment are reviewed for impairment at each balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Refer to Note R for impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in other operating income.

## E INTANGIBLE ASSETS

Intangible assets comprise of computer software. Intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. This impairment test may be performed at any time during the year, provided it is performed at the same time every year. An intangible asset recognised during the current period is tested before the end of the current year.

Intangible assets that have a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised over their estimated useful lives.

Computer software are amortised over their finite useful lives of 3 years.

## F LEASES

**Where the Group and the Company is the lessee**

Lease of property and equipment where the Group and the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the lease assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charge. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period. Property and equipment acquired under finance lease are depreciated over the estimated useful life of the assets.

Leases of assets where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to income statement over the lease period.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## F LEASES (continued)

**Where the Group and the Company is the lessee** (continued)

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Where the operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

## G SECURITIES PORTFOLIO

The Group and the Company classify their securities portfolio into the following categories: securities held at fair value through profit or loss, available-for-sale and held-to-maturity securities. Management determines the classifications of its securities up-front at the point when transactions are entered into.

**(i) Securities held at fair value through profit or loss**

Securities held at fair value through profit or loss comprise of securities held-for-trading ("HFT") and securities other than those held-for-trading but valued at fair value through profit or loss.

***Held-for-trading securities***

Held-for-trading securities ("HFT") are securities that are acquired and held principally for the purpose of selling in the short term.

***Securities other than held-for-trading designated at fair value***

Securities are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

**(ii) Held-to-maturity securities**

Held-to-maturity securities are non-derivative instruments with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity. If the Group sell other than an insignificant amount of held-to-maturity securities, the entire category will be tainted and reclassified as available-for-sale securities.

**(iii) Available-for-sale securities**

Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Securities are initially recognised at fair value. Securities are derecognised when the rights to receive cash flows from the securities have expired or where the Group has transferred substantially all risks and rewards of ownership.

Securities held at fair value through profit or loss and available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the securities held for trading category are included in the income statement in the period which they arise. Gains and losses arising from changes in fair value of available-for-sale securities are recognised directly in equity, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in equity are recognised in the income statement. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Held-to-maturity securities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from the derecognition or impairment of the securities are recognised in the income statement.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## G SECURITIES PORTFOLIO (continued)

### (iii) Available-for-sale securities (continued)

Interest from securities held at fair value through profit or loss, available-for-sale securities and held-to-maturity securities is calculated using the effective interest method and is recognised in the income statement. Dividends from available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted securities are based on quoted prices in active markets. If the market for an instrument is not active (and for unquoted securities), the Group establish fair value by using valuation techniques.

## H RECEIVABLES

Clients' and brokers' balances arising from share and stock broking business are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values).

Other receivables are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). An estimate is made for allowance for bad and doubtful debts based on the review of all outstanding amounts at the end of the financial year. Bad debts are written off during the financial year in which they are identified.

## I DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Changes in the fair value of any derivatives that do not quality for hedge accounting are recognised immediately in the income statement.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which variables include only data from observable markets. When such evidence exists, the banking subsidiary recognise profits immediately.

## J MANAGER'S STOCKS AND PROMOTIONAL ITEMS

Manager's stocks represent units in the unit trust funds managed by the unit trust management subsidiary. The units are stated at lower of cost and net realisable value. Cost is determined on a weighted average basis. Promotional items for future use are stated at cost and are written off when they are not foreseen to be used.

## K CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash and short terms funds held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value, net of monies held in trust for clients and remisiers.

## L PROVISIONS

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligations, and when a reliable estimate of the amount can be made.

# Summary of Significant Accounting Policies
for the financial year ended 30 June 2010
(continued)

## M BORROWINGS

Borrowings are reported at their face values. Interest incurred on borrowings is charged to the income statement as expense on an accrual basis.

## N INCOME TAXES

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Company operates and includes all taxes based upon the taxable profits.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

## O RECOGNITION OF INTEREST INCOME

### (i) Recognition of interest income from loans and advances

Interest income is recognised on an accrual basis. Interest income on term loan is recognised by reference to rest periods which are either daily, monthly or yearly.

Where an account is classified as non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income and set-off against the accrued interest receivable amount in the balance sheet. Subsequently, interest earned on non-performing loan is recognised as interest income on cash basis instead of being accrued and suspended at the same time as prescribed previously.

Customers' accounts are classified as non-performing where repayments are in arrears for 3 months or more from the first day of default.

The Group's policy on suspension of interest income is generally more stringent than BNM's "Guidelines on the Classification of Non-Performing Loans and Provision for Substandard Bad and Doubtful Debts" ("BNM/GP3").

### (ii) Recognition of other interest income

Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on an accrual basis. Where an account is classified as non-performing, interest is credited to the interest-in-suspense account and shall be reversed when realised on a cash basis; except for margin accounts where interest is suspended until the account is reclassified as performing. The suspension of interest income of the stockbroking business is made in accordance with the guidelines of Bursa Malaysia Securities Berhad.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## P RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees which are material are recognised as income based on time apportionment. Service charges and other fee income are recognised as income when the services are rendered.

Dividends from securities held at fair value through profit or loss, available-for-sale securities, held-to-maturity securities and subsidiary companies are recognised when the rights to receive payment is established.

Net profit from securities held at fair value through profit or loss and available-for-sale securities are recognised upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.

Net brokerage income, margin income, rollover fees, nominees service and handling charges are recognised on an accrual basis.

Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

Management fees charged for management of clients' and unit trust funds, underwriting, placement and advisory fees are recognised on an accrual basis.

Service charge from sales of unit trust comprises gross proceeds from sales of unit trust less direct cost of unit trust created, net of cancellations. Such revenue is recognised upon the allotment of unit trust.

Commission from futures clients is recognised upon the execution of trade on behalf of clients.

## Q EMPLOYEE BENEFITS

**(i) Short term employee benefits**

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Company.

**(ii) Defined contribution plans**

A defined contribution plan is a pension plan under which the Group and the Company pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group and the Company contributes to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and the Company has no further payment obligations.

**(iii) Equity compensation benefits**

A trust has been set up for the Employee Share Option Scheme ("ESOS") and is administered by an appointed trustee. The trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's stocks from the open market for the purposes of this trust.

In accordance with FRS 132, the shares purchases for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS Scheme" in equity on the balance sheet. The cost of operating the ESOS scheme would be charged to the income statement when incurred in accordance with the accounting standards.

Details of treasury shares are as discussed in Note 25 of the financial statements.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## R ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES AND OTHER LOSSES

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

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

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

The policy on allowances for losses on loans and advances is in general more stringent than that laid down in BNM/GP3.

Bank Negara Malaysia has granted indulgence to the local banks from complying with the requirement on the impairment of loans and advances under the revised Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8"). The Group and the Bank will be deemed to be in compliance with the requirement on the impairment of loans and advances under the revised BNM/GP8 if the allowances for non-performing loans and advances are computed based on BNM's Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3") requirements.

The allowance for bad and doubtful debts arising from stockbroking business is made in conformity with the minimum requirements of allowance for bad and doubtful debts specified in Rule 1104.1 of Schedule 7 (Chapter 11) of the Rules of Bursa Malaysia Securities Berhad.

## S IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flow/CGU. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement.

## T IMPAIRMENT OF SECURITIES PORTFOLIO

The Group and the Company assess at each balance sheet date whether there is objective evidence that the securities are impaired. A security or a group of securities is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the securities (a 'loss event') and that loss event has an impact on the estimated future cash flows of the securities that can be reliably estimated.

### (i) Securities carried at amortised cost

If there is an objective evidence that an impairment loss on held-to-maturity instruments held at amortised cost has been incurred, the amount of loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the securities' original effective interest rate. The carrying amount of the securities is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

# Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

## T IMPAIRMENT OF SECURITIES PORTFOLIO (continued)

### (ii) Securities carried at fair value

In the case of equity instruments classified as available-for-sale securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If there is an objective evidence that an impairment loss on available-for-sale securities has been incurred, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the securities previously recognised in income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale securities increases and the increase can be related objectively to an event occurring after the impairment was recognised in the income statement, the impairment loss is reversed through the income statement.

## U CURRENCY TRANSLATIONS

### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

### (ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## V CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or the Bank. The Group or the Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

## W SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

Segment revenue, expense, assets and liabilities are those amount resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

# Notes to the Financial Statements
for the financial year ended 30 June 2010

## 1 GENERAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are investment banking, stock broking, unit trust management, fund management, futures broking and nominee services as disclosed in Note 11 to the financial statements.

The Company is a public limited company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The immediate holding and ultimate holding companies are Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

The principal place of business of the Company is located at Level 6-8, 23 Menara HLA, No.3 Jalan Kia Peng, 50450 Kuala Lumpur. The registered office of the Company is located at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

## 2 CASH AND SHORT-TERM FUNDS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Cash and balances with banks and other financial institutions | 322,421 | 61,603 | 230 | 3,468 |
| Money at call and deposit placements maturing within one month | 400,224 | 255,784 | - | 1,200 |
| | 722,645 | 317,387 | 230 | 4,668 |

Included in cash and short term funds of the Group are accounts in trust for clients' and dealers' representatives amounting to RM207,203,000 (2009: RM209,534,000).

## 3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Licensed banks | 45,000 | 24 |
| Other financial institutions | 70 | 49 |
| | 45,070 | 73 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 4 SECURITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| *Held-for-trading* | | | | |
| **Money market instruments** | | | | |
| Negotiable instruments of deposits | 45,003 | - | - | - |
| Private and Islamic debt securities | 190,543 | - | - | - |
| Bank Negara Bills | 188,748 | - | - | - |
| | 424,294 | - | - | - |
| **Quoted securities** | | | | |
| Shares quoted in Malaysia | 7,117 | 6,101 | - | - |
| Unit trust investment | 372 | 342 | 372 | 342 |
| | 7,489 | 6,443 | 372 | 342 |
| | 431,783 | 6,443 | 372 | 342 |

## 5 AVAILABLE FOR SALE SECURITIES

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Unquoted securities** | | |
| Unquoted shares in Malaysia | 2,445 | 2,445 |

## 6 HELD-TO-MATURITY SECURITIES

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Money market instruments** | | |
| Negotiable instruments of deposits | 10,000 | - |

# Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

## 7 LOANS AND ADVANCES

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Term loan financing | 47,559 | - |
| Share margin financing | 46,647 | 55,002 |
| Revolving credit | 28,204 | 31,112 |
| Gross loans and advances | 122,410 | 86,114 |
| Less : | | |
| Allowance for losses on loans and advances | | |
| - specific | (2,688) | (2,521) |
| - general | (1,796) | (1,254) |
| Total net loans and advances | 117,926 | 82,339 |

(i) The maturity structure of loans and advances is as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Maturing within : | | |
| - one year | 122,410 | 86,114 |
| Gross loans and advances | 122,410 | 86,114 |

(ii) The loans and advances are disbursed to the following types of customers:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Domestic business enterprises | 75,533 | 29,776 |
| Individuals | 45,197 | 53,359 |
| Foreign entities | 1,680 | 2,979 |
| Gross loans and advances | 122,410 | 86,114 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 7 LOANS AND ADVANCES (continued)

(iii) Loans and advances analysed by interest rate sensitivity are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Fixed rate: | | |
| - Other fixed rate loans | 46,647 | 55,002 |
| Variable rate: | | |
| - Cost plus | 75,763 | 31,112 |
| Gross loans and advances | 122,410 | 86,114 |

(iv) Loans and advances analysed by their economic purposes are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Purchase of securities | 61,569 | 70,516 |
| Working capital | 60,841 | 15,598 |
| Gross loans and advances | 122,410 | 86,114 |

(v) Non-performing loans and advances analysed by their economic purposes are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Purchase of securities | 2,688 | 2,521 |
| Non-performing loans and advances | 2,688 | 2,521 |

(vi) Movements in the non-performing loans are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| At 1 July | 2,521 | 361 |
| Amount arising from acquisition of SBBS | - | 1,114 |
| Non-performing during the year | 178 | 1,085 |
| Written back during the year | (11) | (39) |
| At 30 June | 2,688 | 2,521 |
| Specific allowance | (2,688) | (2,521) |
| Net non-performing loans and advances | - | - |
| Ratio of non-performing loans to total loans and advances net of specific allowance | 0% | 0% |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 7 LOANS AND ADVANCES (continued)

(vii) Movements in the allowance for bad and doubtful debts are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Specific allowance** | | |
| At 1 July | 2,521 | 361 |
| Allowances arising from loans and advances acquired from SBB Securities Sdn Bhd ("SBBS") | - | 1,114 |
| Allowances made during the year | 178 | 1,085 |
| Written back during the year | (11) | (39) |
| At 30 June | 2,688 | 2,521 |
| **General allowance** | | |
| At 1 July | 1,254 | 384 |
| Amount arising from acquisition of Southern Investment Bank Bhd ("SIBB") | - | 524 |
| Allowances arising from loans and advances acquired from SBBS | - | 178 |
| Allowances made during the year | 542 | 168 |
| At 30 June | 1,796 | 1,254 |
| (as % of total loans less specific allowances) | 1.5% | 1.5% |

## 8 CLIENTS' AND BROKERS' BALANCES

Clients' and broker's balances represent amounts receivable from outstanding purchase contracts in respect of the Group's stockbroking business entered on behalf of clients, amount due from brokers and contra losses.

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Performing accounts | 88,664 | 192,472 |
| Non-performing accounts - Bad | 37,525 | 73,406 |
| - Doubtful | 288 | 53 |
| | 126,477 | 265,931 |
| Less: Allowance for bad and doubtful debts | | |
| - specific | (37,043) | (73,432) |
| - general | (9) | (50) |
| - interest in suspence | (627) | (46,687) |
| | 88,798 | 145,762 |

# Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

## 8 CLIENTS' AND BROKERS' BALANCES (continued)

Movements in the allowance for losses on clients' and brokers' balances are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Specific allowance | | |
| At 1 July | 73,432 | 76,032 |
| Allowances made during the financial year | 831 | - |
| Allowances written back | (417) | (2,600) |
| Allowances written off | (36,803) | - |
| At 30 June | 37,043 | 73,432 |
| General allowance | | |
| At 1 July | 50 | 125 |
| Allowances made during the financial year | - | 43 |
| Allowances written back during the financial year | (41) | (118) |
| At 30 June | 9 | 50 |
| Interest in suspense | | |
| At 1 July | 46,687 | 43,994 |
| Interest suspended during the financial year | 5,387 | 2,693 |
| Interest suspended written off | (51,447) | - |
| At 30 June | 627 | 46,687 |

## 9 OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Amount due from subsidiary companies (a) | - | - | 2,864 | 11,143 |
| Deposits and prepayments | 4,913 | 4,635 | 5 | 5 |
| Other receivables | 7,949 | 8,805 | - | - |
| Interest receivable | 4,009 | 4 | - | - |
| Derivative financial instruments (Note 19) | 23 | - | - | - |
| Manager's stocks and promotional items (b) | 351 | 410 | - | - |
| | 17,245 | 13,854 | 2,869 | 11,148 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 9 OTHER RECEIVABLES (continued)

(a) The amounts due from subsidiary companies comprise the following:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Advances (unsecured) | 198,574 | 206,853 |
| Less: Allowance for doubtful debts | (167,901) | (167,901) |
| Interest-in-suspense | (27,809) | (27,809) |
| | 2,864 | 11,143 |

Included in the amount due from subsidiaries is an unsecured advance which was fully provided for and interest suspended. The remaining balance of RM2.5 million bears interest of 3.65% (2009: 3.50%). All other balances are unsecured, interest free and have no fixed terms of repayment.

(b) The Manager's stocks and promotional items of the Group comprise the following:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Quoted unit trust, at cost | 258 | 382 |
| Promotional items, at cost | 93 | 28 |
| | 351 | 410 |
| Quoted unit trust, at market value | 256 | 386 |

## 10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ("BNM")

The non-interest bearing statutory deposits are maintained by the banking subsidiary with BNM in compliance with Section 37(1)(c) of Central Bank of Malaysia Act 1958, the amount of which is determined at set percentages of total eligible liabilities.

## 11 INVESTMENT IN SUBSIDIARY COMPANIES

| | The Company | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Subsidiary companies:** | | |
| Unquoted shares at cost | 275,266 | 275,266 |
| Less: Accumulated impairment losses | (5,077) | (5,077) |
| | 270,189 | 270,189 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 11 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

(i) Details of the subsidiaries are as follows:

| Name of company | Country of incorporation | Equity interest | | Principal activities |
|---|---|---|---|---|
| | | 2010 % | 2009 % | |
| Hong Leong Investment Bank Berhad and its subsidiaries | Malaysia | **100** | 100 | Investment banking and stock broking |
| - HLG Nominee (Tempatan) Sdn Bhd | Malaysia | **100** | 100 | Agent and nominee for Malaysian clients |
| - HLG Nominee (Asing) Sdn Bhd | Malaysia | **100** | 100 | Agent and nominee for foreign clients |
| - RC Holdings Sdn Bhd | Malaysia | **100** | 100 | Dormant |
| - RC Nominees (Asing) Sdn Bhd | Malaysia | **100** | 100 | Dormant |
| - RC Nominees (Tempatan) Sdn Bhd | Malaysia | **100** | 100 | Dormant |
| - RC Research Sdn Bhd | Malaysia | **100** | 100 | Dormant |
| HLG Asset Management Sdn Bhd | Malaysia | **100** | 100 | Dormant |
| HLG Capital Markets Sdn Bhd | Malaysia | **100** | 100 | Investment holdings |
| HLG Principal Investments (L) Limited | Labuan | **100** | 100 | Dormant |
| HLG Securities Sdn Bhd | Malaysia | **100** | 100 | Investment holdings |
| HLG Futures Sdn Bhd | Malaysia | **100** | 100 | Futures and options broking |
| Hong Leong Asset Management Bhd (formerly known as HLG Unit Trust Bhd) | Malaysia | **100** | 100 | Sales of unit trust and funds management |
| Unincorporated trust for ESOS [1] | Malaysia | **-** | - | Special purpose vehicle for ESOS purposes |

[1] Deemed subsidiary pursuant to IC 112 – Consolidation : Special Purpose Entities.

## 12 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

| | | The Group | |
|---|---|---|---|
| | | **2010 RM'000** | 2009 RM'000 |
| Deferred tax assets | (a) | **53,232** | 59,105 |
| Deferred tax liabilities | (b) | **(194)** | (650) |
| | | **53,038** | 58,455 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 12 DEFERRED TAXATION (continued)

| | The Group | |
|---|---|---|
| | 2010<br>RM'000 | 2009<br>RM'000 |
| At 1 July | 58,455 | 1,330 |
| Amount arising from acquisition of SBBS | - | 72 |
| Transfer (to)/from income statement (Note 33) | (5,417) | 57,053 |
| At 30 June | 53,038 | 58,455 |

The movements in deferred tax assets and liabilities during the year comprise the following:

**(a) Deferred tax assets**

| | General allowance RM'000 | Unabsorbed tax losses RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|---|
| **The Group** | | | | |
| At 1 July 2009 | 327 | 57,231 | 1,547 | 59,105 |
| Credited/(charged) to income statement | 124 | (5,595) | (402) | (5,873) |
| At 30 June 2010 | 451 | 51,636 | 1,145 | 53,232 |
| | | | | |
| At 1 July 2008 | 129 | - | 1,672 | 1,801 |
| Credited/(charged) to income statement | 198 | 57,231 | (125) | 57,304 |
| At 30 June 2009 | 327 | 57,231 | 1,547 | 59,105 |

**(b) Deferred tax liabilities**

| | Property and equipment RM'000 | Available-for-sale securities RM'000 | Total RM'000 |
|---|---|---|---|
| **The Group** | | | |
| At 1 July 2009 | 650 | - | 650 |
| Credited to income statement | (456) | - | (456) |
| At 30 June 2010 | 194 | - | 194 |
| | | | |
| At 1 July 2008 | 300 | 171 | 471 |
| Amount arising from acquisition of SBBS | (72) | - | (72) |
| Charged/(credited) to income statement | 422 | (171) | 251 |
| At 30 June 2009 | 650 | - | 650 |

# Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

## 13 PREPAID LEASE PAYMENTS

| | The Group | |
|---|---|---|
| | 2010 Leasehold land 50 years or more RM'000 | 2009 Leasehold land 50 years or more RM'000 |
| **Cost** | | |
| At 1 July | 1,133 | - |
| Amount arising from acquisition of SBBS | - | 1,133 |
| At 30 June | 1,133 | 1,133 |
| **Amortisation** | | |
| At 1 July | (1) | - |
| Amortisation during the year | (1) | (1) |
| At 30 June | (2) | (1) |
| **Net book value 30 June** | 1,131 | 1,132 |
| Future amortisation of prepaid lease payments are as follows: | | |
| - Not later than 1 year | 1 | 1 |
| - Later than 1 year and not later than 5 years | 4 | 4 |
| - Later than 5 years | 1,126 | 1,127 |
| | 1,131 | 1,132 |

## 14 PROPERTY AND EQUIPMENT

| | Leasehold building RM'000 | Office and computer equipment RM'000 | Furniture and fittings RM'000 | Office renovations RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **The Group 2010** | | | | | | |
| **Cost** | | | | | | |
| At 1 July 2009 | 871 | 15,924 | 1,725 | 6,938 | 1,274 | 26,732 |
| Additions | - | 913 | 572 | 927 | 670 | 3,082 |
| Disposals | - | (8) | (1) | - | (848) | (857) |
| At 30 June 2010 | 871 | 16,829 | 2,296 | 7,865 | 1,096 | 28,957 |
| **Accumulated depreciation** | | | | | | |
| At 1 July 2009 | 11 | 13,502 | 1,456 | 6,006 | 1,007 | 21,982 |
| Charge for the financial year | 17 | 1,200 | 100 | 381 | 177 | 1,875 |
| Disposals | - | (8) | - | - | (695) | (703) |
| At 30 June 2010 | 28 | 14,694 | 1,556 | 6,387 | 489 | 23,154 |
| **Net book value** | | | | | | |
| At 30 June 2010 | 843 | 2,135 | 740 | 1,478 | 607 | 5,803 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 14 PROPERTY AND EQUIPMENT (continued)

| | Leasehold building RM'000 | Office and computer equipment RM'000 | Furniture and fittings RM'000 | Office renovations RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **2009** | | | | | | |
| **Cost** | | | | | | |
| At 1 July 2008 | - | 14,245 | 1,607 | 6,930 | 1,345 | 24,127 |
| Additions | - | 1,177 | 68 | (24) | 17 | 1,238 |
| Amount arising from acquisition of SBBS | 871 | 489 | 50 | 32 | 17 | 1,459 |
| Amount arising from acquisition of SIBB | - | 16 | - | - | - | 16 |
| Disposals | - | (3) | - | - | (105) | (108) |
| At 30 June 2009 | 871 | 15,924 | 1,725 | 6,938 | 1,274 | 26,732 |
| **Accumulated depreciation** | | | | | | |
| At 1 July 2008 | - | 12,566 | 1,389 | 5,685 | 871 | 20,511 |
| Charge for the financial year | 11 | 937 | 67 | 321 | 198 | 1,534 |
| Disposals | - | (1) | - | - | (62) | (63) |
| At 30 June 2009 | 11 | 13,502 | 1,456 | 6,006 | 1,007 | 21,982 |
| **Net book value** | | | | | | |
| At 30 June 2009 | 860 | 2,422 | 269 | 932 | 267 | 4,750 |

## 15 GOODWILL

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Cost** | | |
| At 1 July | 32,823 | 4,663 |
| Goodwill arising from acquisition of SIBB and SBBS | - | 85,396 |
| Goodwill arising during the year | 236 | - |
| Impairment loss on goodwill | - | (57,236) |
| At 30 June | 33,059 | 32,823 |

# Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

## 15 GOODWILL (continued)

**Allocation of goodwill to cash-generating units**

Goodwill has been allocated to the following cash-generating-units ("CGUs"):

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **CGU** | | |
| Investment banking and stock broking | **28,986** | 28,750 |
| Unit trust management | **4,073** | 4,073 |
| | **33,059** | 32,823 |

**Impairment test on goodwill**

The fair value is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by directors covering a one-year period. Cash flows beyond the one-year period are assumed to grow at 4% (2009: 4%) to infinity.

The cash flow projections are derived based on a number of key factors including the past performance and management's expectations at the market development. The pre-tax discount rate is 9.6% (2009: 11.4%) and reflect specific risks relating to the segment.

An impairment charge of RM57,236,000 was recognised in 2009 for goodwill arising from the investment banking and stock broking segment. For the current year, impairment was not required for goodwill arising from investment banking and stockbroking segment. Management believes that any reasonable possible change to the assumptions applied is not likely cause the recoverable amount to be lower than carrying amount.

## 16 INTANGIBLE ASSETS - COMPUTER SOFTWARE

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Cost** | | |
| At 1 July | **10,423** | 9,663 |
| Amount arising from acquisition of SIBB | **-** | 43 |
| Additions | **1,034** | 717 |
| At 30 June | **11,457** | 10,423 |
| **Amortisation** | | |
| At 1 July | **(9,441)** | (9,069) |
| Charge of the year | **(677)** | (372) |
| At 30 June | **(10,118)** | (9,441) |
| At end of financial year | **1,339** | 982 |

# Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

## 17 DEPOSITS FROM CUSTOMERS

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Fixed deposits | 31,218 | - |
| (i) Maturity structure of fixed deposits is as follows: | | |
| Due within six months | 31,218 | - |
| (ii) The deposits are sourced from the following customers | | |
| Business enterprises | 31,218 | - |

## 18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Licensed banks | 61,000 | - |
| Other financial institutions | 539,990 | 9,820 |
| | 600,990 | 9,820 |

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Derivatives at fair value through profit or loss** | | |
| - Interest rate swaps | 23 | - |
| - Futures | - | - |
| Total derivative financial assets | 23 | - |
| **Derivatives at fair value through profit or loss** | | |
| - Interest rate swaps | - | - |
| - Futures | (1,194) | - |
| Total derivative financial liabilities | (1,194) | - |

## 20 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM178,185,463 (2009: RM179,167,000).

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 21 PAYABLES AND OTHER LIABILITIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Amount due to: | | | | |
| - holding company | 2 | 4 | 2 | 2 |
| - other related companies | 1,039 | 709 | 25 | 103 |
| Amount payable to fund managers | - | 814 | - | - |
| Amount payable for creation of units due to funds | - | 5,201 | - | - |
| Amount payable to unit trust | - | 16,851 | - | - |
| Remisiers' trust deposits | 11,122 | 12,816 | - | - |
| Interest payable | 791 | 261 | 10 | 92 |
| Derivative financial instruments (Note 19) | 1,194 | - | - | - |
| Other payables and accrued liabilities (Note a) | 299,539 | 17,552 | 629 | 574 |
| Post employment benefits obligation | | | | |
| - defined contribution plan | 502 | 1,028 | - | - |
| | 314,189 | 55,236 | 666 | 771 |

The amounts due to the holding company, subsidiaries and other related companies, are interest free and have no fixed terms of repayment.

(a) Included in other payables and accrued liabilities are as follows:

(i) A net balance of RM6,263,000 derived from a bond amounting to RM177,750,000 set off against deposit from customer and coupon received on the bond of RM184,013,000. The terms of the arrangement of the acquisition of the bond required the issuer of the bond to deposit at least an amount equivalent or higher with the subsidiary bank. The net amount of RM6,263,000 is presented in balance sheet in accordance with FRS 132 Financial Instruments: Presentation, where the subsidiary bank has a legally enforceable right to set off the recognised amounts and has the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ii) An amount received from a customer of RM280 million which is to be placed as fixed deposit on 1 July 2010.

## 22 BORROWINGS

| | The Group and The Company | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Revolving credit | 22,000 | 146,900 |

The interest rate of the revolving credit facilities ranges from 2.90% to 3.86% (2009: 2.90% to 4.70%) per annum. The revolving credit facilities are repayable within 12 months.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 23 SHARE CAPITAL

| | The Group and The Company | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Authorised:** | | |
| Ordinary shares of RM1.00 each | | |
| At beginning of financial year | 200,000 | 200,000 |
| Increased during the year | 300,000 | - |
| At end of financial year | 500,000 | 200,000 |
| **Issued and fully paid:** | | |
| Ordinary shares of RM1.00 each | | |
| At beginning of financial year | 123,448 | 123,448 |
| Issued during the year | 123,448 | - |
| At end of financial year | 246,896 | 123,448 |

## 24 RESERVES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Retained profits | 58,796 | 51,724 | 19,613 | 20,564 |
| Statutory reserve | 11,044 | 4,362 | - | - |
| General reserve | 543 | 543 | - | - |
| | 70,383 | 56,629 | 19,613 | 20,564 |

Subject to agreement with the tax authorities, the Company has tax credits under Section 108 of the Income Tax Act, 1967 to frank payment of dividends out of the Company's retained profits to the extent of RM266,650,029 (2009: RM266,650,029). In addition, the Company has tax exempt income of approximately RM465,953 (2009: RM465,953) available for future distribution of tax exempt dividends.

The statutory reserve is maintained by the banking subsidiary which is in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividend.

## 25 TREASURY SHARES

**Treasury shares for ESOS scheme**

The Company has entered into a Trust for ESOS purposes established via the signing of a Trust Deed on 23 January 2006 with AmTrustee Berhad in conjunction with the establishment of Executive Share Option Schemes ("ESOS"). The trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust.

FRS 132 - Financial Instruments: Presentation and Disclosure requires that if an entity reacquires its own equity instruments, those instruments shall be deducted from equity and are not recognised as a financial asset regardless of the reason for which they are reacquired.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 25 TREASURY SHARES (continued)

In accordance with FRS 132 - Financial Instruments: Presentation and Disclosure, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS Scheme" in the equity on the balance sheet. As at 30 June 2010, the number of shares held by the appointed trustee was 12,287,200 shares (2009: 3,943,600) at a carrying value of RM13,203,461 (2009: RM3,973,381) inclusive of transaction costs.

The ESOS options have not been granted as at the end of the financial year.

## 26 INTEREST INCOME

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Loans and advances | | | | |
| - Interest income other than recoveries from NPLs | 6,211 | 5,240 | - | - |
| Money at call and deposit placements with financial institutions | 4,061 | 2,993 | 114 | 239 |
| Securities held at fair value through profit or loss | 2,603 | - | - | - |
| Available-for-sale securities | 2,328 | - | - | - |
| Held-to-maturity securities | 292 | - | - | - |
| Others | 6,005 | 2,775 | 91 | - |
| | 21,500 | 11,008 | 205 | 239 |
| Accretion of discount less amortisation of premium | (115) | - | - | - |
| Interest suspended | (5,387) | (2,693) | - | - |
| | 15,998 | 8,315 | 205 | 239 |

## 27 INTEREST EXPENSE

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Deposits and placements of banks and other financial institutions | 1,151 | 65 | - | - |
| Deposits from customers | 2,796 | 129 | - | - |
| Borrowings | 2,332 | 3,476 | 2,182 | 3,239 |
| | 6,279 | 3,670 | 2,182 | 3,239 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 28 NON-INTEREST INCOME

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Fee income** | | | | |
| Brokerage income | 42,264 | 32,864 | - | - |
| Unit trust fee income | 19,406 | 19,498 | - | - |
| Commission from future contracts | 919 | 1,304 | - | - |
| Service charges and fees | 6,891 | 228 | - | - |
| Other fee income | 2,589 | 882 | - | - |
| | 72,069 | 54,776 | - | - |
| **Net income from securities** | | | | |
| Net realised gain from sale of securities held at fair value through profit or loss | 897 | - | - | - |
| Net unrealised gain/(loss) on revaluation of securities held at fair value through profit or loss | 1,478 | (945) | 30 | 13 |
| Dividend income from: | | | | |
| - securities held at fair value through profit or loss | 598 | 1,041 | - | - |
| - available-for-sale securities | 37 | 44 | - | - |
| - subsidiary companies | - | - | 4,122 | 4,310 |
| | 3,010 | 140 | 4,152 | 4,323 |
| **Other income** | | | | |
| Gain on disposal of property and equipment | 321 | 73 | - | - |
| Other non-operating income | 340 | 495 | 10 | 10 |
| | 661 | 568 | 10 | 10 |
| | 75,740 | 55,484 | 4,162 | 4,333 |

## 29 OVERHEAD EXPENSES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Personnel costs | 36,222 | 27,218 | 1,423 | 439 |
| Establishment costs | 14,320 | 11,628 | 36 | 5 |
| Marketing expenses | 2,217 | 2,033 | 24 | 25 |
| Administration and general expenses | 11,213 | 7,083 | 1,153 | 923 |
| | 63,972 | 47,962 | 2,636 | 1,392 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 29 OVERHEAD EXPENSES (continued)

(i) Personnel costs comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Salaries, bonus and allowances | 29,209 | 19,515 | 1,033 | 324 |
| Other employees benefits | 7,013 | 7,703 | 390 | 115 |
| | 36,222 | 27,218 | 1,423 | 439 |

(ii) Establishment costs comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Depreciation of property and equipment | 1,875 | 1,534 | - | - |
| Amortisation of intangible assets | 677 | 372 | - | - |
| Amortisation of prepaid lease payments | 1 | 1 | - | - |
| Rental of premises | 4,620 | 3,755 | 10 | - |
| Information technology expenses | 5,010 | 3,834 | - | - |
| Others | 2,137 | 2,132 | 26 | 5 |
| | 14,320 | 11,628 | 36 | 5 |

(iii) Marketing expenses comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Advertisement and publicity | 1,109 | 671 | 6 | - |
| Travelling and accomodation | 442 | 520 | 15 | 25 |
| Others | 666 | 842 | 3 | - |
| | 2,217 | 2,033 | 24 | 25 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 29 OVERHEAD EXPENSES (continued)

(iv) Administration and general expenses comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Communication expenses | 2,289 | 1,467 | 2 | 2 |
| Stationery and printing expenses | 562 | 425 | 7 | 15 |
| Management fee | 1,566 | 1,113 | | |
| Professional fees | 3,165 | 1,337 | 182 | 214 |
| Stamp, postage and courier | 432 | 353 | 20 | 9 |
| Auditors' remuneration: | | | | |
| - statutory audit | 207 | 193 | 24 | 24 |
| - other fees | 5 | 25 | 5 | 5 |
| Others | 2,987 | 2,170 | 913 | 654 |
| | 11,213 | 7,083 | 1,153 | 923 |

Included in the personnel costs of the Group and the Company are Directors' rumeneration amounting to RM536,000 (2009: RM505,000) and RM427,000 (2009: RM381,000) respectively.

## 30 ALLOWANCE FOR/(WRITEBACK OF) LOSSES ON LOANS AND ADVANCES AND OTHER LOSSES

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Allowance for losses on loans and advances: | | |
| (a) Specific allowance | | |
| - made during the financial year | 178 | 1,085 |
| - written back | (11) | (39) |
| (b) General allowance | | |
| - made during the financial year | 542 | 168 |
| | 709 | 1,214 |
| Bad debts on loans and advances | | |
| - Recovered | (41) | - |
| Allowance for losses on clients' and brokers' balances | | |
| (a) Specific allowance | | |
| - made during the financial year | 831 | - |
| - written back | (417) | (2,600) |
| (b) General allowance | | |
| - made during the financial year | - | 43 |
| - written back | (41) | (118) |
| | 373 | (2,675) |
| | 1,041 | (1,461) |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 31 IMPAIRMENT LOSS

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Charge for the financial year | | |
| - Goodwill | - | 57,236 |

## 32 DIRECTORS' REMUNERATION

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Directors of the Company** | | | | |
| Non-Executive: | | | | |
| Salaries and other emoluments | - | 81 | - | 81 |
| Fees | 583 | 424 | 427 | 300 |
| | 583 | 505 | 427 | 381 |

The movement and details of the Directors in office and interests in shares and share options are reported in the Directors' Report.

## 33 TAXATION

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Malaysian income tax: | | | | |
| - current year's charge | 1,644 | 2,335 | - | 69 |
| - overprovision in prior years | (869) | (1,364) | - | (988) |
| | 775 | 971 | - | (919) |
| Deferred tax (Note 12): | | | | |
| Relating to origination and reversal of temporary differences | 5,417 | (57,053) | - | - |
| Relating to changes in tax rate | - | - | - | - |
| | 5,417 | (57,053) | - | - |
| | 6,192 | (56,082) | - | (919) |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 33 TAXATION (continued)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and the Company is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Profit/(Loss) before taxation | 20,446 | (43,608) | (451) | (59) |
| Tax calculated at a rate of 25% (2009: 25%) | 5,112 | (10,902) | (113) | (15) |
| Tax effects of: | | | | |
| - Income not subject to tax | (15) | (356) | (1,039) | (3) |
| - Expenses not deductible for tax purposes | 2,079 | 15,750 | 1,152 | 87 |
| - Previously unrecognised tax losses | - | (57,231) | - | - |
| - Tax saving from islamic tax incentive | (143) | - | - | - |
| - Tax savings from utilisation of brought forward losses | - | (2,302) | - | - |
| - Other temporary differences not recognised previously | 28 | 323 | - | - |
| - Overprovision in prior years | (869) | (1,364) | - | (988) |
| Taxation | 6,192 | (56,082) | - | (919) |

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Tax losses** | | |
| Tax losses for which the related tax credit has not been recognised in the financial statements | 23,107 | 22,994 |
| **Capital allowance** | | |
| Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements | 2,065 | 2,049 |

## 34 EARNINGS PER SHARE

The basic earnings per share has been calculated by dividing the net profit for the financial year of the Group by the number of ordinary shares in issue excluding the weighted average shares held by ESOS Trust during the financial year as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Weighted average number of ordinary shares in issue | 235,975 | 119,541 |
| Net profit attributable to equity holders of the Company | 14,254 | 12,474 |
| Basic and fully diluted earnings per share (sen) | 6.0 | 10.4 |

There is no diluted earnings per share as the Group have no category of dilutive potential ordinary shares.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 35 DIVIDENDS

| | The Group and The Company | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Gross per share sen | Amount of dividend net of tax RM'000 | Gross per share sen | Amount of dividend net of tax RM'000 |
| Dividend recognized as distribution to equity holders: | | | | |
| Final dividend | - | - | 7.5 | 6,722 |

The dividends are paid on outstanding share capital excluding the treasury shares held for ESOS.

## 36 COMMITMENT AND CONTINGENCIES

**(a) Investment banking subsidiary company related commitments and contingencies**

In the normal course of business, the investment banking subsidiary make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are also not secured over the assets of the Group.

The commitments and contingencies constitute are as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Principal amount RM'000 | Credit equivalent amount RM'000 | Risk weighted assets RM'000 | Principal amount RM'000 | Credit equivalent amount RM'000 | Risk weighted assets RM'000 |
| **Derivative Financial Instruments** | | | | | | |
| **Interest rate related contracts:** | | | | | | |
| - One year or less | 680,000 | - | - | - | - | - |
| - Over one year to five years | 2,545,000 | 1,021 | 204 | - | - | - |
| | 3,225,000 | 1,021 | 204 | - | - | - |
| **Commitments** | | | | | | |
| Any commitment that are unconditionally cancelled at any time by the bank without prior notice | 267,940 | - | - | 327,475 | - | - |
| **Total** | 3,492,940 | 1,021 | 204 | 327,475 | - | - |

Bank Negara Malaysia letter dated 18 March 2009 has allowed capital treatment on the undrawn portion of the credit facilities under Risk Weighted Capital Adequacy Framework to apply a 0% credit conversion factor (instead of 20%) on the undrawn portions of credit facilities with the original maturity of less than one year as a temporary measure to support lending activities of the banking industry. This measure is applicable until 31 December 2010.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 36 COMMITMENT AND CONTINGENCIES (continued)

### (b) Other commitments and contingencies - unsecured

HLG Unit Trust Bhd, a wholly owned subsidiary of the Company, is the Manager of HLG Sectoral Funds ("Funds"), which comprises five (5) sector funds. The Company provided a guarantee to Universal Trustee (Malaysia) Berhad, the trustee of the Funds, that if any of the five sector funds falls below the minimum fund size of RM1 million, the Company would invest cash, equivalent to the shortfall, into the relevant fund.

The size of each of the five funds was above the minimum of RM1 million as at 30 June 2010.

## 37 CAPITAL COMMITMENTS

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Property and equipment | | |
| - Approved and contracted but not provided for | 964 | - |
| - Approved but not contracted for | 115 | 1,388 |
| | 1,079 | 1,388 |

## 38 LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments, net of sublease, under non-cancellable operating lease commitment are as follows:

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Less than one year | 4,380 | 1,799 |
| More than one year but less than five years | 6,293 | 161 |

## 39 CAPITAL ADEQUACY

BNM guidelines require banking entities to maintain a certain minimum level of capital funds against the "risk-weighted" value of assets and certain commitments and contingencies. The capital funds of Hong Leong Investment Bank ("HLIB") as at 30 June 2010 met the minimum requirement.

The capital ratios of HLIB for year 2010 are computed based on BNM's Guidelines on Risk Weighted Capital Adequacy Framework (Basel II).

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 39 CAPITAL ADEQUACY (continued)

The capital adequacy ratios of HLIB are as follows:

| | HLIB | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| **Tier-1 capital** | | |
| Paid-up share capital | 265,535 | 123,500 |
| Other reserves | 21,688 | 8,325 |
| Less: Goodwill | (30,236) | (30,000) |
| Less: Deferred tax assets | (52,597) | (58,192) |
| Total Tier-1 capital | 204,390 | 43,633 |
| **Tier-2 capital** | | |
| Redeemable preference shares ("RPS") | 1,631 | 1,631 |
| Share premium on RPS | - | 142,035 |
| General allowance for bad and doubtful debts | 1,805 | 1,304 |
| Total Tier-2 capital | 3,436 | 144,970 |
| Eligible Tier-2 capital | 3,436 | 43,633 |
| Total Tier-1 and Tier-2 capital | 207,826 | 87,266 |
| Less: Investment in subsidiaries | (588) | (588) |
| Total capital base | 207,238 | 86,678 |
| **Capital ratios** | | |
| Core capital ratio | 33.06% | 17.59% |
| Risk-weighted capital ratio | 33.52% | 34.94% |

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS

### (a) Related parties and relationships

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

| Related parties | Relationship |
|---|---|
| Hong Leong Company (Malaysia) Berhad ("HLCM") | Ultimate holding company |
| Hong Leong Financial Group Berhad ("HLFG") | Immediate holding company |
| Subsidiary companies of the Company as disclosed in Note 11 | Subsidiaries |
| Subsidiary companies of HLCM | Subsidiaries of ultimate holding company |
| Subsidiary companies of HLFG | Subsidiaries of immediate holding company |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (a) Related parties and relationships (continued)

| Related parties | Relationship |
|---|---|
| Key management personnel | The key management personnel of the Group and the Company consists of:<br>- All Directors of the Company and its holding Company<br>- Key management personnel of the Company who are in charge of the Group |
| Related parties of key management personnel (deemed as related to the Company) | (i) Close family members and dependents of key management personnel<br>(ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members |

### (b) Related parties transactions

Transactions with related parties are as follows:

| | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|
| **The Group** | | | |
| **2010** | | | |
| **Income** | | | |
| Brokerage income | - | 728 | 127 |
| Interest on interbank placements | - | 2,651 | - |
| | - | 3,379 | 127 |
| **Expenses** | | | |
| Rental | - | 3,082 | - |
| Interest on interbank borrowings | - | 119 | - |
| Management fee | 399 | 1,427 | - |
| Commission | - | 8,131 | - |
| Other | - | 834 | - |
| | 399 | 13,593 | - |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (b) Related parties transactions (continued)

Transactions with related parties are as follows:

| | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|
| **The Group** | | | |
| **2010** (continued) | | | |
| **Amounts due from:** | | | |
| Current account | - | 15,058 | - |
| Interbank placements | - | 202,394 | - |
| Clients' and brokers' balances | - | 1,791 | - |
| | - | 219,243 | - |
| **Amounts due to:** | | | |
| Interbank placement | - | 5,000 | - |
| Others | 2 | 1,039 | - |
| | 2 | 6,039 | - |

| | Parent company RM'000 | Subsidiaries RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|---|
| **The Company** | | | | |
| **2010** | | | | |
| **Income** | | | | |
| Interest on interbank placements | - | - | 113 | - |
| Dividends income | - | 4,122 | - | - |
| | - | 4,122 | 113 | - |
| **Expenses** | | | | |
| Others | - | - | 122 | - |
| | - | - | 122 | - |
| **Amounts due from:** | | | | |
| Current account | - | - | 230 | - |
| Others | - | 2,864 | - | - |
| | - | 2,864 | 230 | - |
| **Amounts due to:** | | | | |
| Others | 2 | - | 25 | - |
| | 2 | - | 25 | - |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) **Related parties transactions** (continued)

Transactions with related parties are as follows:

| | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|
| **The Group** | | | |
| **2009** | | | |
| **Income** | | | |
| Brokerage income | - | 501 | 123 |
| Interest on interbank placements | - | 1,883 | - |
| Fund management fee | - | 654 | - |
| | - | 3,038 | 123 |
| **Expenses** | | | |
| Rental | - | 2,501 | - |
| Interest on interbank borrowings | - | 66 | - |
| Management fee | 197 | 963 | - |
| Commission | - | 6,179 | - |
| Other | - | 870 | - |
| | 197 | 10,579 | - |
| **Amounts due from:** | | | |
| Current account | - | 17,006 | - |
| Interbank placements | - | 202,260 | - |
| Interest receivable on interbank placements | - | 3 | - |
| | - | 219,269 | - |
| **Amounts due to:** | | | |
| Others | 4 | 709 | - |
| | 4 | 709 | - |

| | Parent company RM'000 | Subsidiaries RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|---|
| **The Company** | | | | |
| **2009** | | | | |
| **Income** | | | | |
| Interest on interbank placements | - | - | 239 | - |
| Dividends income | - | 4,310 | - | - |
| | - | 4,310 | 239 | - |

# Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

**(b) Related party transactions** (continued)

Transactions with related parties are as follows:

| | Parent company RM'000 | Subsidiaries RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|---|
| **The Company** | | | | |
| **2009** (continued) | | | | |
| **Expenses** | | | | |
| Others | - | - | 68 | - |
| | - | - | 68 | - |
| **Amounts due from:** | | | | |
| Current account | - | - | 3,468 | - |
| Interbank placements | - | - | 1,200 | - |
| Others | - | 11,143 | - | - |
| | - | 11,143 | 4,668 | - |
| **Amounts due to:** | | | | |
| Others | 2 | - | 103 | - |
| | 2 | - | 103 | - |

All the transactions above were transacted in the normal course of business of the Group and the Company on arm's length basis and on normal commercial terms.

**(c) Key management personnel**

Key management compensation

| | The Group | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| Salaries and other short-term employee benefits | **5,023** | 2,044 |
| Defined contribution plan | **601** | 239 |
| | **5,624** | 2,283 |

Included in the above is the Directors' remuneration which is disclosed in Note 32.

## 41 LITIGATION AGAINST THE COMPANY AND ITS SUBSIDIARY

The Company and its wholly owned subsidiary, HLG Securities Sdn. Bhd. ("HLG Securities") were named as defendants in a Writ of Summons dated 21 March 2002 filed by Borneo Securities Holdings Sdn Bhd ("BSH") and served on HLG Securities on 15 April 2002.

BSH alleged that HLG Securities had breached the terms of the sale and purchase agreement dated 31 October 2000 ("SPA") between HLG Securities and BSH for HLG Securities' proposed acquisition of 100% equity interest in Borneo Securities Sdn Bhd for a total purchase consideration of RM88 million. The Company is of the view that the suit is baseless as the motion for the proposed acquisition was not approved by shareholders at the Extraordinary General Meeting of the Company held on 24 October 2001 and accordingly, the SPA was terminated.

There has been no development on the above as at end of the financial year.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 42 SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

No analysis by geographical segments is presented as the Group's operations are substantially carried out in Malaysia.

Inter-segment pricing is determined based on arms-length basis. These transactions are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise tax recoverable, deferred tax, other corporate assets and other corporate liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

**Business segments**

The Group comprises the following main business segments:

| | | |
|---|---|---|
| Investment banking and stock broking | - | Investment banking, stock and securities broking |
| Futures and options broking | - | Futures and options broking |
| Fund management and unit trust | - | Fund and unit trust management and management sale of unit trust |
| Investment holding and others | - | Investment holdings and offshore Investment holding |

| | Investment banking and stock broking RM'000 | Futures and options broking RM'000 | Fund management and unit trust management RM'000 | Investment holding and others RM'000 | Elimination RM'000 | Consolidated RM'000 |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **2010** | | | | | | |
| **Revenue** | | | | | | |
| External revenue | 65,997 | 1,202 | 20,194 | (1,934) | - | 85,459 |
| Inter-segment revenue | - | - | - | 4,122 | (4,122) | - |
| Total revenue | 65,997 | 1,202 | 20,194 | 2,188 | (4,122) | 85,459 |
| Overhead expenses | (46,007) | (1,369) | (13,937) | (2,649) | (10) | (63,972) |
| Allowances for losses on loans, advances and financing and other losses | (1,041) | - | - | - | - | (1,041) |
| **Result** | | | | | | |
| Segment results from operations | 18,949 | (167) | 6,257 | (461) | (4,132) | 20,446 |
| Taxation | | | | | | (6,192) |
| | | | | | | 14,254 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 42 SEGMENTAL INFORMATION (continued)

| | Investment banking and stock broking RM'000 | Futures and options broking RM'000 | Fund management and unit trust management RM'000 | Investment holding and others RM'000 | Elimination RM'000 | Consolidated RM'000 |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **2010** | | | | | | |
| **Assets** | | | | | | |
| Segment assets | 1,400,954 | 34,113 | 45,522 | 655 | - | 1,481,244 |
| Other corporate assets | | | | | | 53,848 |
| Total assets | | | | | | 1,535,092 |
| **Liabilities** | | | | | | |
| Segment liabilities | 1,165,714 | 24,714 | 18,190 | 22,194 | - | 1,230,812 |
| Other corporate liabilities | | | | | | 204 |
| Total liabilities | | | | | | 1,231,016 |
| **Other information** | | | | | | |
| Capital expenditure | 3,689 | - | 427 | - | - | 4,116 |
| Depreciation of property and equipment | 1,668 | 36 | 172 | - | - | 1,876 |
| Amortisation of intangible assets | 632 | 4 | 41 | - | - | 677 |
| Amotisation of prepaid lease payment | 1 | - | - | - | - | 1 |
| Allowance for losses on loans and advances | 709 | - | - | - | - | 709 |
| Bad debts on loans and advances recovered | (41) | - | - | - | - | (41) |
| Allowance for losses on clients'and brokers' balances | 373 | - | - | - | - | 373 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 42 SEGMENTAL INFORMATION (continued)

| | Investment banking and stock broking RM'000 | Futures and options broking RM'000 | Fund management and unit trust management RM'000 | Investment holding and others RM'000 | Elimination RM'000 | Consolidated RM'000 |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **2009** | | | | | | |
| **Revenue** | | | | | | |
| External revenue | 41,256 | 1,541 | 20,310 | (2,978) | - | 60,129 |
| Inter-segment revenue | 20,000 | - | (10) | 4,310 | (24,300) | - |
| Total revenue | 61,256 | 1,541 | 20,300 | 1,332 | (24,300) | 60,129 |
| Overhead expenses | (32,700) | (1,401) | (12,457) | (1,404) | - | (47,962) |
| Allowances for losses on loans, advances and financing and other losses | 1,461 | - | - | - | - | 1,461 |
| **Result** | | | | | | |
| Segment results from operations | 30,017 | 140 | 7,843 | (72) | (24,300) | 13,628 |
| Impairment loss | | | | | | (57,236) |
| Taxation | | | | | | 56,082 |
| | | | | | | 12,474 |
| **2009** | | | | | | |
| **Assets** | | | | | | |
| Segment assets | 514,330 | 36,213 | 52,039 | 5,408 | - | 607,990 |
| Other corporate assets | | | | | | 59,099 |
| Total assets | | | | | | 667,089 |
| **Liabilities** | | | | | | |
| Segment liabilities | 290,006 | 26,644 | 26,653 | 147,682 | - | 490,985 |
| Total liabilities | | | | | | 490,985 |
| **Other information** | | | | | | |
| Capital expenditure | 1,863 | - | 92 | - | - | 1,955 |
| Depreciation of property and equipment | 1,365 | 36 | 133 | - | - | 1,534 |
| Amortisation of intangible assets | 344 | 4 | 24 | - | - | 372 |
| Amotisation of prepaid lease payment | 1 | - | - | - | - | 1 |
| Allowance for losses on loans and advances | 1,214 | - | - | - | - | 1,214 |
| Writeback of losses on clients' and brokers' balances | (2,675) | - | - | - | - | (2,675) |
| Impairment loss on goodwill | 57,236 | - | - | - | - | 57,236 |

Segmental analysis by geographical location has not been prepared as the Group's operations are predominantly conducted in Malaysia.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS

**Risk management objectives and policies**

Risk Management is one of the core activities of the Group to strike a balance between sound practices and risk-return. An effective risk management is therefore vital to ensure that the Group conducts its business in a prudent manner to ensure that the risk of potential losses is reduced.

**Credit Risk**

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks include credit assessment risk, settlement risk, margin finance default risk and concentration limit risk.

The Group has set out specific policies and guidelines on the extension of trading/credit limits to its salaried and commissioned dealer's representatives and clients. Specific requirements and/or parameters in accordance with regulatory requirements are set out for the granting of limits that provide for proper spread and control of the credit risks.

Loans and advances are monitored on an ongoing basis via group-wide management reporting procedures. The investment banking business also adheres to the rules of Bursa Malaysia Securities Berhad on significant exposure to any individual customer or financial instrument.

**Market Risk**

Market risk is the risk of loss arising from adverse fluctuation in market prices, such as interest rates and share prices. The Group monitors its exposure on all equity securities held through its business activities and management is alerted on the financial impact of these risks with regard to risk concentration of the holding company and capital adequacy of Hong Leong Investment Bank.

The Group does not use any derivative financial instruments in managing market risk.

**Interest rate risk**

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rates and shifts in the composition of the assets and liabilities. Interest rate risk exposure is identified, measured, monitored and controlled through limits and procedures set by the Asset and Liability Management Committee ('ALCO') of the investment banking subsidiary to protect total net interest income from changes in market interest rates.

The Group has no substantial long term interest-bearing assets as at 30 June 2010 and the investment in financial assets is mainly short term in nature.

Interest rates on loans and advances are fixed or determined on a floating rate basis in accordance with loan arrangements with the various customers. It is the practice of the Group to ensure that the interest rates charged will not be lower than the prevailing market rates while complying with the provisions of the Money Lenders Ordinance, 1951.

The Group seeks to achieve a balance between certainty of funding and a flexible and cost-effective borrowing structure. The Group manages the funding requirements of its subsidiary companies and allocates funds in such a manner that all business units maintain optimum levels of liquidity for their operations, which is sufficient to meet the necessary regulatory requirements and without leaving the funding facilities unutilised.

**Liquidity Risk**

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arise from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Group's policy to ensure there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

One of the tools for monitoring liquidity is the New Liquidity Framework ('NLF') as introduced by Bank Negara Malaysia. The NLF assesses liquidity based on the contractual and behavioural pattern of cash flow of assets, liabilities and off balance sheet commitments as well as taking into consideration the realisable cash value of eligible liquefiable securities.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

**Operational Risk**

Operational risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes and controls due to error, inefficiencies, omission and unauthorised access, including external events beyond the control of the Group. In order to reduce or mitigate these risks, the Group has established internal control mechanisms within the various levels of the organisation, which include the setting up of procedural and control systems by the various units to manage the day-to-day operational risk inherent in their respective business and functional areas.

**(a) Interest rate risk**

The tables below summarise the Group's and the Company's exposure to interest rate risks. Included in the tables are the Group's and the Company's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest rates and yield curves change over time, the Group and the Company may be exposed to loss in earnings due to the effects of interest rates on the structure of the balance sheets. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | | | | |
| | Non-trading book | | | | | | | | |
| | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 12 months RM'000 | > 1 – 5 years RM'000 | > 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **Assets** | | | | | | | | | |
| Cash and short term funds | 400,224 | - | - | - | - | 322,421 | - | 722,645 | 2.4 |
| Deposits and placements with banks and other financial institution | - | 45,000 | - | - | - | 70 | - | 45,070 | 2.7 |
| Securities held at fair value through profit or loss | - | - | - | - | - | - | 431,783 | 431,783 | 3.6 |
| Available-for-sale securities | - | - | - | - | - | 2,445 | - | 2,445 | - |
| Securities held for maturity | 10,000 | - | - | - | - | - | - | 10,000 | 2.6 |
| Loans and advances | | | | | | | | | |
| - performing | 72,760 | 46,962 | - | - | - | (1,796)^ | - | 117,926 | 5.6 |
| - non performing | - | - | - | - | - | - ^ | - | - | - |
| Clients' and brokers' balances | - | - | - | - | - | 88,798 | - | 88,798 | - |
| Other receivables | - | - | - | - | - | 17,245 | - | 17,245 | - |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 4,000 | | 4,000 | - |
| Tax recoverable | - | - | - | - | - | 810 | - | 810 | - |
| Deferred tax assets | - | - | - | - | - | 53,038 | - | 53,038 | - |
| Prepaid lease payments | - | - | - | - | - | 1,131 | - | 1,131 | - |
| Property and equipment | - | - | - | - | - | 5,803 | - | 5,803 | - |
| Goodwill | - | - | - | - | - | 33,059 | - | 33,059 | - |
| Intangible assets | - | - | - | - | - | 1,339 | - | 1,339 | - |
| **Total assets** | 482,984 | 91,962 | - | - | - | 528,363 | 431,783 | 1,535,092 | |

^ Includes specific allowances and general allowances amounting to RM4,484,000

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (a) Interest rate risk (continued)

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | | | | |
| | Non-trading book | | | | | | | | |
| | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 12 months RM'000 | > 1 – 5 years RM'000 | > 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 31,218 | - | - | - | - | - | - | 31,218 | 2.5 |
| Deposits and placements of banks and other financial institutions | 559,790 | 39,339 | 1,861 | - | - | - | - | 600,990 | 2.5 |
| Clients' and brokers' balances | - | - | - | - | - | 262,415 | - | 262,415 | - |
| Payables and other liabilities | - | - | - | - | - | 314,189 | - | 314,189 | - |
| Provision for taxation | | | | | | 204 | | 204 | - |
| Borrowings | 22,000 | - | - | - | - | - | - | 22,000 | 3.6 |
| **Total liabilities** | 613,008 | 39,339 | 1,861 | - | - | 576,808 | - | 1,231,016 | - |
| | | | | | | | | | |
| **Total interest rate sensitivity gap** | (130,024) | 52,623 | (1,861) | | | | | | |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (a) Interest rate risk (continued)

| The Group 2009 | Non-trading book: Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | >1 – 5 years RM'000 | >5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and short term funds | 255,784 | - | - | - | - | 61,603 | - | 317,387 | 1.9 |
| Deposits and placements with banks and other financial institution | - | 24 | - | - | - | 49 | - | 73 | 1.8 |
| Securities held at fair value through profit or loss | - | - | - | - | - | - | 6,443 | 6,443 | - |
| Available-for-sale securities | - | - | - | - | - | 2,445 | - | 2,445 | - |
| Loans and advances | | | | | | | | | |
| - performing | 31,112 | 52,481 | - | - | - | (1,254)^ | - | 82,339 | 8.0 |
| - non performing | - | - | - | - | - | - ^ | - | - | - |
| Clients' and brokers' balances | - | - | - | - | - | 145,762 | - | 145,762 | - |
| Other receivables | - | - | - | - | - | 13,854 | - | 13,854 | - |
| Tax recoverable | - | - | - | - | - | 644 | - | 644 | - |
| Deferred tax assets | - | - | - | - | - | 58,455 | - | 58,455 | - |
| Prepaid lease payments | - | - | - | - | - | 1,132 | - | 1,132 | - |
| Property and equipment | - | - | - | - | - | 4,750 | - | 4,750 | - |
| Goodwill | - | - | - | - | - | 32,823 | - | 32,823 | - |
| Intangible assets | - | - | - | - | - | 982 | - | 982 | - |
| **Total assets** | 286,896 | 52,505 | - | - | - | 321,245 | 6,443 | 667,089 | |
| **Liabilities** | | | | | | | | | |
| Deposits and placements of banks and other financial institutions | 8,000 | 344 | 1,476 | - | - | - | - | 9,820 | 2.1 |
| Clients' and brokers' balances | - | - | - | - | - | 279,029 | - | 279,029 | - |
| Payables and other liabilities | - | - | - | - | - | 55,236 | - | 55,236 | - |
| Borrowings | 146,900 | - | - | - | - | - | - | 146,900 | 3.2 |
| **Total liabilities** | 154,900 | 344 | 1,476 | - | - | 334,265 | - | 490,985 | |
| **Total interest rate sensitivity gap** | 131,996 | 52,161 | (1,476) | | | | | | |

^ Includes specific allowances and general allowances amounting to RM3,775,000.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (a) Interest rate risk (continued)

| The Company 2010 | Non-trading book: Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | >1 – 5 years RM'000 | >5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and short term funds | - | - | - | - | - | 230 | - | 230 | - |
| Securities held at fair value through profit or loss | - | - | - | - | - | - | 372 | 372 | - |
| Other receivables | - | - | - | - | - | 2,869 | - | 2,869 | - |
| Tax recoverable | - | - | - | - | - | 2,312 | - | 2,312 | - |
| Investment in subsidiary companies | - | - | - | - | - | 270,189 | - | 270,189 | - |
| **Total assets** | - | - | - | - | - | 275,600 | 372 | 275,972 | |
| **Liabilities** | | | | | | | | | |
| Payables and other liabilities | - | - | - | - | - | 666 | - | 666 | - |
| Borrowings | 22,000 | - | - | - | - | - | - | 22,000 | 3.6 |
| **Total liabilities** | 22,000 | - | - | - | - | 666 | - | 22,666 | |
| **Total interest rate sensitivity gap** | (22,000) | - | - | | | | | | |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (a) Interest rate risk (continued)

| | The Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | | | |
| | ← Non-trading book → | | | | | | | | |
| | Up to 1 month RM'000 | > 1 – 3 months RM'000 | > 3 – 12 months RM'000 | > 1 – 5 years RM'000 | > 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **Assets** | | | | | | | | | |
| Cash and short term funds | 1,200 | - | - | - | - | 3,468 | - | 4,668 | 1.9 |
| Securities held at fair value through profit or loss | - | - | - | - | - | - | 342 | 342 | - |
| Other receivables | - | - | - | - | - | 11,148 | - | 11,148 | - |
| Tax recoverable | - | - | - | - | - | 1,363 | - | 1,363 | - |
| Investment in subsidiary companies | - | - | - | - | - | 270,189 | - | 270,189 | - |
| **Total assets** | 1,200 | - | - | - | - | 286,168 | 342 | 287,710 | |
| **Liabilities** | | | | | | | | | |
| Payables and other liabilities | - | - | - | - | - | 771 | - | 771 | - |
| Borrowings | 146,900 | - | - | - | - | - | - | 146,900 | 3.2 |
| **Total liabilities** | 146,900 | - | - | - | - | 771 | - | 147,671 | |
| **Total interest rate sensitivity gap** | (145,700) | - | - | | | | | | |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (b) Credit risk

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | | | | |
| | Short term funds and placements with financial institutions RM'000 | Securities held at fair value through profit or loss RM'000 | Available-for-sale securities RM'000 | Held-to-maturity securities RM'000 | Loans and advances# RM'000 | Clients' and brokers' balances# RM'000 | Other financial assets* RM'000 | On-balance sheet total RM'000 | Credit related commitments and contingencies RM'000 |
| Agriculture | - | - | - | - | 5,010 | - | - | 5,010 | - |
| Mining and quarrying | - | - | - | - | 10,012 | - | - | 10,012 | - |
| Manufacturing | - | - | - | - | 39,739 | - | - | 39,739 | - |
| Electricity, gas and water | - | 14,958 | - | - | - | - | 643 | 15,601 | - |
| Construction | - | - | - | - | - | - | - | - | - |
| Real estate | - | 7,117 | - | - | 19,496 | - | - | 26,613 | - |
| General commerce | - | - | - | - | - | - | - | - | - |
| Transport, storage and communication | - | 15,272 | - | - | - | - | 274 | 15,546 | - |
| Finance, insurance and business services | 758,650 | 85,662 | 2,445 | 10,000 | - | 8,208 | 6,016 | 870,981 | 3,225,000 |
| Government and government agencies | 9,065 | 308,774 | - | - | - | - | 8,898 | 326,737 | - |
| Purchase of securities | - | - | - | - | 43,960 | 80,599 | - | 124,559 | 267,940 |
| Household | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | 1,505 | - | 6,221 | 7,726 | - |
| | 767,715 | 431,783 | 2,445 | 10,000 | 119,722 | 88,807 | 22,052 | 1,442,524 | 3,492,940 |

# Excludes general allowance for loans and advances of RM1,796,000 and clients' and brokers' balances of RM9,000

* Other financial assets comprise of other receivables and tax recoverable

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (b) Credit risk (continued)

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | | | |
| | Short term funds and placements with financial institutions RM'000 | Securities held at fair value through profit or loss RM'000 | Available-for-sale securities RM'000 | Held-to-maturity securities RM'000 | Loans and advances# RM'000 | Clients' and brokers' balances# RM'000 | Other financial assets* RM'000 | On-balance sheet total RM'000 | Credit related commitments and contingencies RM'000 |
| Agriculture | - | - | - | - | 3,008 | - | - | 3,008 | - |
| Mining and quarrying | - | - | - | - | 10,014 | - | - | 10,014 | - |
| Construction | - | - | - | - | 707 | - | - | 707 | - |
| Real estate | - | 6,101 | - | - | - | - | - | 6,101 | - |
| General commerce | - | - | - | - | 366 | - | - | 366 | - |
| Finance, insurance and business services | 317,445 | 342 | 2,445 | - | - | - | 8,723 | 328,955 | - |
| Government and government agencies | 15 | - | - | - | - | - | 644 | 659 | - |
| Purchase of securities | - | - | - | - | 67,994 | 145,812 | - | 213,806 | 327,475 |
| Household | - | - | - | - | 1,504 | - | - | 1,504 | - |
| Others | - | - | - | - | - | - | 5,131 | 5,131 | - |
| | 317,460 | 6,443 | 2,445 | - | 83,593 | 145,812 | 14,498 | 570,251 | 327,475 |

# Excludes general allowance for loans and advances of RM1,254,000 and clients' and brokers' balances of RM50,000

* Other financial assets comprise of other receivables and tax recoverable

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

| | The Company | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Short term funds and placements with financial institutions RM'000 | Securities held at fair value through profit or loss RM'000 | Other financial assets* RM'000 | On-balance sheet total RM'000 |
| Finance, insurance and business services | 230 | 372 | 2,864 | 3,466 |
| Government and government agencies | - | - | 2,312 | 2,312 |
| Others | - | - | 5 | 5 |
| | 230 | 372 | 5,181 | 5,783 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (b) Credit risk (continued)

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

| | The Company | | | |
|---|---|---|---|---|
| | 2009 | | | |
| | Short term funds and placements with financial institutions RM'000 | Securities held at fair value through profit or loss RM'000 | Other financial assets* RM'000 | On-balance sheet total RM'000 |
| Finance, insurance and business services | 4,668 | 342 | 11,143 | 16,153 |
| Government and government agencies | - | - | 1,363 | 1,363 |
| Others | - | - | 5 | 5 |
| | 4,668 | 342 | 12,511 | 17,521 |

* Other financial assets comprise of other receivables and tax recoverable

### (c) Fair value for financial instruments

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

The fair values are based on the following methodologies and assumptions:

***Short term funds and placements with financial institutions***

For deposits and placements with banks and other financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

***Securities held at fair value through profit or loss, available-for-sale and held-to-maturity***

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Group and the Company will establish the fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

***Loans and advances***

For floating rate loans, the carrying value is generally a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 43 FINANCIAL INSTRUMENTS (continued)

### (c) Fair value for financial instruments (continued)

***Loans and advances*** (continued)

The fair values of non-performing floating and fixed rate loans are represented by their carrying value, net of specific allowance, being the expected recoverable amount.

***Clients´ and brokers´ balances***

The carrying amount as at balance sheet date approximate fair values due to relatively short term maturity of these financial instruments.

***Other assets and liabilities***

The carrying value less any estimated allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

***Deposits and placements of other financial institutions***

The estimated fair values of deposits and placements of other financial institutions with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

***Credit related commitment and contingencies***

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received less associated costs.

The above mentioned range of methodologies and assumptions had been used in deriving the fair values of the Group's and Company's financial instruments at balance sheet date. The total fair value of each financial instrument approximates the total carrying value.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132 which requires the fair value information to be disclosed. These include other receivables, tax recoverable, investment in subsidiary companies, deferred tax assets, prepaid lease payments, property and equipment, goodwill and intangible assets.

## 44 EQUITY COMPENSATION BENEFITS

**Executive Share Option Scheme ("ESOS" or "Scheme")**

The Executive Share Option Scheme ("ESOS") of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company which was approved by the shareholders of the Company on 8 November 2005 was established on 23 January 2006 and would be in force for a period of ten (10) years.

On 18 January 2006, the Company announced that Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the Group to participate in the equity of the Company.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 44 EQUITY COMPENSATION BENEFITS (continued)

**Executive Share Option Scheme ("ESOS" or "Scheme")** (continued)

The main features of the ESOS are, inter alia, as follows:-

1. Eligible executives are those executives of the Group who have been confirmed in service on the date of offer or directors (executive or non-executive) of the Company and its subsidiaries. The maximum allowable allotments for the full time executive directors had been approved by the shareholders of the Company in a general meeting. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options.

2. The aggregate number of shares to be issued under the ESOS shall not exceed 15% of the issued and paid-up ordinary share capital of the Company for the time being.

3. The Scheme shall be in force for a period of ten (10) years from 23 January 2006.

4. The option price shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the date of offer and shall in no event be less than the par value of the shares of the Company.

5. The option granted to an option holder under the ESOS is exercisable by the option holder only during his employment with the HLFG Group and within the option exercise period subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESOS.

6. The exercise of the options may, at the absolute discretion of the Board of Directors of the Company, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESOS; or a combination of both new shares and existing shares.

Pursuant to this, a trust has been set up for the ESOS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust. In accordance with FRS 132, the shares purchased for the benefit of the ESOS holdings are recorded as "Treasury Shares for ESOS Scheme" in equity on the balance sheet. The cost of operating the ESOS scheme is charged to the income statement.

The trustee will manage the trust in accordance with the trust deed. Upon termination of the trust, the trustee will dispose all remaining trust shares, if any, and deal with any surplus or deficit of the trust in accordance with the instructions of the Company.

There were no options granted during the financial year.

The number and market values of the ordinary shares held by the Trustee are as follows:

| | The Group and The Company | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Number of trust shares held '000 | Market value RM'000 | Number of trust shares held '000 | Market value RM'000 |
| At 1 July | **3,944** | **4,260** | 3,630 | 4,175 |
| Shares purchased | **8,343** | **9,010** | 314 | 361 |
| At 30 June | **12,287** | **13,270** | 3,944 | 4,536 |

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 45 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's and the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

**(a) Allowance for losses on loans and advances**

The Group makes allowance for losses on loans and advances based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the Group's aggregate exposure to the borrowers, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

**(b) Impairment of goodwill**

The Group perform an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amount from the CGU to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate and discount rate.

## 46 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

**(a) Proposed rights issue**

On 19 January 2009, the Company announced its proposal to undertake the following:

(i) a renounceable rights issue of up to 123,448,334 new ordinary shares of RM1.00 each ("Rights Share(s)") in the Company at an indicative issue price of RM1.00 per Rights Share on the basis of one (1) Rights Share for every one (1) existing ordinary shares of RM1.00 each ("HLGC Shares" or "Shares") held in the Company ("Proposed Rights Issue");

(ii) increase in the Authorised Share Capital of the Company from RM200,000,000 comprising 200,000,000 Shares to RM500,000,000 comprising 500,000,000 Shares ("Proposed Increase"); and

(iii) amendment to the Memorandum of Association of the Company ("Proposed Amendment").

On 25 May 2009, the Company announced that the issue price of the Rights Shares had been fixed at RM1.00 per Rights Share ("Rights Issue Price"). The Rights Issue Price was arrived at after taking into consideration the weighted average market price of HLGC Shares for the past five (5) market days up to and including 22 May 2009 (being the market day immediately preceding the price fixing date of 25 May 2009) of approximately RM1.0903.

The theoretical ex-rights price based on the above was approximately RM1.045 ("TERP"). The Rights Issue Price represented a discount of 4.5 sen or approximately 4.31% over the TERP.

At the Extraordinary General Meeting of the Company held on 31 July 2009, the shareholders approved the Proposed Rights Issue, Proposed Increase and Proposed Amendment.

On the 8 October 2009 ("Closing Date"), the total valid acceptances and excess applications received for the Proposed Rights Issue were for 141,044,149 Rights Shares. This represented a subscription level of 114.25% of the total number of Rights Shares available under the Proposed Rights Issue.

The 123,448,334 Rights Shares were granted listing of and quotation on the Main Market of Bursa Malaysia Securities Berhad on 22 October 2009 and the Proposed Rights Issue was completed on even date.

# Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

## 46 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (continued)

### (b) Proposed merger of HLG Unit Trust Bhd and HLG Asset Management Sdn Bhd

On 15 April 2010, the Company announced the proposed merger of the business operations of its two (2) wholly-owned subsidiaries, namely HLG Unit Trust Bhd (now know as Hong Leong Asset Management Bhd)("HLAM") and HLG Asset Management Sdn Bhd ("HLGAM") ("Proposed Merger").

Pursuant to the Proposed Merger, HLGAM had on 15 April 2010 entered into a Business Transfer Agreement with HLAM whereby HLGAM would transfer its assets, liabilities, activity, business and the undertaking of the business carried on by HLGAM as a going concern ("HLGAM Business") to HLAM with effect from 1 June 2010 (or such other date as may be agreed by the parties hereto) ("Transfer Date").

The consideration for the transfer of the HLGAM Business was RM8,656,412, based on the value of the net assets of HLGAM as at the Transfer Date, and was satisfied by HLAM in cash.

The Proposed Merger was completed on 1 June 2010.

## 47 SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

### (a) Proposed integration of HLG Futures Sdn Bhd and Hong Leong Investment Bank Berhad

On 22 April 2010, the Company announced that two of its wholly-owned subsidiaries, namely Hong Leong Investment Bank Berhad ("HLIB") and HLG Futures Sdn Bhd ("HLG Futures") had, on 22 April 2010, entered into a Business Transfer Agreement, whereby HLG Futures would transfer all its assets, liabilities, activity, business and the undertaking of the business carried on by HLG Futures as a going concern ("HLG Futures Business") to HLIB ("Proposed Integration") with effect from 31 July 2010 (or such other date as may be agreed by the parties hereto) ("Transfer Date").

The consideration for the transfer of the HLG Futures Business would be based on the value of the net assets of HLG Futures as at the Transfer Date, and would be satisfied by HLIB in cash.

The Proposed Integration was subject to, inter alia, the following:

(i) obtaining the order of the High Court for the vesting of HLG Futures Business in HLIB;
(ii) the approval of the Minister of Finance through the Securities Commission("SC"); and
(iii) the approval of the SC for the application for a Capital Market Service licence to carry on the business of trading futures contracts by HLIB.

The SC had, vide its letter dated 18 June 2010, informed that the transfer of HLG Futures's business to HLIB has been approved pursuant to Section 139 of the Capital Markets and Services Act 2007.

On 12 July 2010, HLIB and HLG Futures entered into a Supplemental Business Transfer Agreement to revise the Transfer Date to 2 October 2010.

On 28 July 2010, High Court has granted the aproval for the Proposed Integration.

### (b) Proposed Change of Name

On the 13 August 2010, the Company announced that the Company is proposing to change its name from "HLG Capital Berhad" to "Hong Leong Capital Berhad" ("Proposed Change of Name").

The use of the name "Hong Leong Capital Berhad" was approved by the Companies Commission of Malaysia ("CCM') on 10 August 2010.

The Proposed Change of Name is subject to the approval of the shareholders of the Company at the Nineteenth Annual General Meeting to be convened, and if approved, will take effect upon the issuance of the Certificate of Incorporation on Change of Name by the CCM.

## 48 APPROVAL OF FINANCIAL STATEMENT

The financial statements were authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 30 July 2010.

# Statement by Directors

## Pursuant to Section 169 (15) of the Companies Act, 1965

We, Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Choong Yee How, two of the Directors of HLG Capital Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 37 to 98 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010 and of the results of their operations for the year ended on that date; and the cash flows of the Group and the Company for the year then ended on that date, in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

On behalf of the Board.

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

**CHOONG YEE HOW**

Kuala Lumpur
8 September 2010

# Statutory Declaration

## Pursuant to Section 169 (16) of the Companies Act, 1965

I, Lau Yew Sun, the officer primarily responsible for the financial management of HLG Capital Berhad, do solemnly and sincerely declare that the financial statements set out on pages 37 to 98 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Lau Yew Sun
Kuala Lumpur in Wilayah Persekutuan on
8 September 2010

Before me,

**TAN SEOK KETT**
Commissioner for Oaths

# Independent Auditors' Report

to the Members of HLG Capital Berhad
(Incorporated in Malaysia)
(Company No: 213006-U)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of HLG Capital Berhad, which comprise the balance sheets as at 30 June 2010 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 98.

### Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2010 and of their financial performance and cash flows for the year then ended.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in the form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

# Independent Auditors' Report

to the Members of HLG Capital Berhad
(Incorporated in Malaysia)
(Company No: 213006-U)
(continued)

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PRICEWATERHOUSECOOPERS**
(No. AF: 1146)
Chartered Accountants

**SOO HOO KHOON YEAN**
(No. 2682/10/11 (J))
Chartered Accountant

Kuala Lumpur
8 September 2010

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Nineteenth Annual General Meeting of HLG Capital Berhad ("the Company") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 26 October 2010 at 10.00 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2010.

2. To approve the payment of Directors' fees of RM326,438 for the financial year ended 30 June 2010 (2009: RM360,000), to be divided amongst the Directors in such manner as the Directors may determine. **(Resolution 1)**

3. To re-elect the following retiring Directors:-

   (a) YBhg Tan Sri Quek Leng Chan **(Resolution 2)**
   (b) YBhg Dato' Mohamed Nazim bin Abdul Razak **(Resolution 3)**

4. To pass the following motion as an ordinary resolution:-

   "**THAT** YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting." **(Resolution 4)**

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. **(Resolution 5)**

**SPECIAL BUSINESS**
As special business, to consider and, if thought fit, pass the following motions:-

6. **Ordinary Resolution**
   **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 Company, at any time and from time to 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 does not exceed 10% of the issued capital of the Company 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 Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **(Resolution 6)**

7. **Ordinary Resolution**
   **Proposed Shareholders' Mandate on Recurrent Related Party Transactions of a Revenue or Trading Nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and Persons Connected with HLCM**

   "**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(A) and (C) of the Company's Circular to Shareholders dated 4 October 2010 ("the Circular") with HLCM and persons connected with HLCM, as set out in Appendix II of the Circular provided that such transactions are undertaken in the ordinary course of business, on arm's length basis and on commercial terms which are not more favourable to the related party than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution.

# Notice of Annual General Meeting
(continued)

**AND THAT** such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is the earlier." **(Resolution 7)**

8. **Ordinary Resolution**
**Proposed Shareholders' Mandate on Recurrent Related Party Transactions of a Revenue or Trading Nature with Tower Real Estate Investment Trust ("Tower REIT")**

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(B) of the Company's Circular to Shareholders dated 4 October 2010 with Tower REIT provided that such transactions are undertaken in the ordinary course of business, on arm's length basis and on commercial terms which are not more favourable to the related party than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution.

**AND THAT** such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is the earlier." **(Resolution 8)**

9. **Special Resolution**
**Proposed Change Of Name**

"**THAT** the name of the Company be changed from HLG Capital Berhad to Hong Leong Capital Berhad and that all references in the Memorandum and Articles of Association of the Company to the name of HLG Capital Berhad, wherever the same may appear, shall be deleted and substituted with Hong Leong Capital Berhad; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this Special Resolution." **(Special Resolution 1)**

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

By Order of the Board

**CHRISTINE MOH SUAT MOI** (MAICSA No. 7005095)
Secretary

Kuala Lumpur
4 October 2010

# Notice of Annual General Meeting
(continued)

**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 Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. 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 Company at Level 8, 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.

**SPECIAL BUSINESS**

3. **Ordinary Resolution 6 On Authority To Directors To Issue Shares**

   The proposed Ordinary Resolution, if passed, will give a renewed mandate to the Directors of the Company to issue ordinary shares of the Company from time to time provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being ("Renewed Mandate"). The Renewed Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting ("AGM") of the Company.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last AGM held on 28 October 2009 and which will lapse at the conclusion of the Nineteenth AGM.

   The Renewed Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issue of new shares, and to avoid delay and cost in convening general meetings to approve such issue of shares.

4. **Ordinary Resolutions 7 to 8 On Recurrent Related Party Transactions Of A Revenue Or Trading Nature**

   The proposed Ordinary Resolutions, if passed, will empower the Company and/or its subsidiaries ("HLGC Group") to enter into recurrent related party transactions of a revenue or trading nature which are necessary for HLGC Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public and are not, in the Company's opinion, detrimental to the minority shareholders of the Company.

   Detailed information on the Proposed Shareholders' Mandate is set out in the Circular to Shareholders dated 4 October 2010 which is dispatched together with the Company's 2010 Annual Report.

5. **Special Resolution 1 on Proposed Change of Name**

   The proposed Special Resolution, if passed, will facilitate the proposed change of name of the Company from "HLG Capital Berhad" to "Hong Leong Capital Berhad". The proposed name shall take effect upon the issuance of the Certificate of Incorporation on Change of Name of Company (Form 13) by the Companies Commission of Malaysia and all references to "HLG Capital Berhad" in the Memorandum and Articles of Association of the Company, wherever the same may appear, shall be substituted with "Hong Leong Capital Berhad."

# Statement Accompanying Notice of Annual General Meeting
(Pursuant to Paragraph 8.27(2) of the Bursa Securities Main Market Listing Requirements)

- **Details of individuals who are standing for election as Directors**

  No individual is seeking election as a Director at the forthcoming Nineteenth AGM of the Company.

# Other Information

## 1. MATERIAL CONTRACTS

There were no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010

Authorised share capital : RM500,000,000
Issued & paid-up capital : RM246,896,668
Class of shares : Ordinary shares of RM1.00 each
Voting rights
- on show of hands : 1 vote
- on a poll : 1 vote for each share held

**Distribution Schedule Of Shareholders As At 30 August 2010**

| Size of Holdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| Less than 100 | 46 | 1.30 | 1,830 | 0.00 |
| 100 – 1,000 | 739 | 20.89 | 680,349 | 0.28 |
| 1,001 – 10,000 | 2,160 | 61.07 | 9,754,869 | 3.95 |
| 10,001 – 100,000 | 545 | 15.41 | 15,666,492 | 6.34 |
| 100,001 – less than 5% of issued shares | 46 | 1.30 | 25,529,901 | 10.34 |
| 5% and above of issued shares | 1 | 0.03 | 195,263,227 | 79.09 |
| | 3,537 | 100.00 | 246,896,668 | 100.00 |

**List Of Thirty Largest Shareholders As At 30 August 2010**

| | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 1. | Assets Nominees (Tempatan) Sdn Bhd<br>- Hong Leong Financial Group Berhad | 195,263,227 | 79.09 |
| 2. | AmTrustee Berhad<br>- Exempt AN for HLG Capital Berhad (ESOS) | 12,287,200 | 4.98 |
| 3. | Quek Siow Leng | 1,254,900 | 0.51 |
| 4. | Citigroup Nominees (Asing) Sdn Bhd<br>- Kwek Leng Hai | 1,000,000 | 0.40 |
| 5. | Tan Liew Cheun | 930,000 | 0.38 |
| 6. | Malacca Equity Nominees (Tempatan) Sdn Bhd<br>- Ho Kok Kiang | 707,000 | 0.29 |
| 7. | Low Poh Weng | 688,000 | 0.28 |
| 8. | Chong Thuah Realty Sdn Bhd | 680,900 | 0.28 |

# Other Information
(continued)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010 (continued)

**List Of Thirty Largest Shareholders As At 30 August 2010** (continued)

| | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 9. | HDM Nominees (Asing) Sdn Bhd<br>- Lim & Tan Securities Pte Ltd (A/C House) | 628,000 | 0.25 |
| 10. | Mayban Nominees (Tempatan) Sdn Bhd<br>- Lim See How | 442,200 | 0.18 |
| 11. | Pacific & Orient Insurance Co Berhad | 397,000 | 0.16 |
| 12. | Teh Choong Weng | 350,000 | 0.14 |
| 13. | Life Enterprise Sdn Bhd | 320,800 | 0.13 |
| 14. | Ng Tiong Pung | 314,400 | 0.13 |
| 15. | HLG Nominee (Tempatan) Sdn Bhd<br>- Chut Nyak Isham Bin Nyak Ariff | 303,000 | 0.12 |
| 16. | Su Ming Keat | 300,000 | 0.12 |
| 17. | Wong Wooi Choon @ Philip Wong | 300,000 | 0.12 |
| 18. | Lee Sek Tah | 270,000 | 0.11 |
| 19. | Tan Kwang How | 240,000 | 0.10 |
| 20. | Cimsec Nominees (Tempatan) Sdn Bhd<br>- Teoh Ewe Jin | 204,000 | 0.08 |
| 21. | Omar Bin Zolkifli | 200,068 | 0.08 |
| 22. | HSBC Nominees (Asing) Sdn Bhd<br>- Exempt AN for Credit Suisse | 200,000 | 0.08 |
| 23. | Sim Cheng Hwa | 200,000 | 0.08 |
| 24. | Yee Chin Shiar | 200,000 | 0.08 |
| 25. | N Kanakambal A/P Doraisamy | 189,900 | 0.08 |
| 26. | Irene Yap Yin Fei | 178,700 | 0.07 |
| 27. | HDM Nominees (Asing) Sdn Bhd<br>- Exempt AN for UOB Kay Hian (Hong Kong) Limited (Clients) | 166,000 | 0.07 |
| 28. | Ooi Hock Eng | 162,000 | 0.07 |
| 29. | Heng Ah Lik | 159,800 | 0.06 |
| 30. | Tam Sook Wan | 156,700 | 0.06 |
| | | 218,693,795 | 88.58 |

# Other Information
(continued)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010 (continued)

**Substantial Shareholders**

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2010 are as follows:-

| | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| Names of Shareholders | No. of Shares | % | No. of Shares | % |
| Hong Leong Financial Group Berhad | 195,263,227 | 79.09 | - | - |
| Tan Sri Quek Leng Chan | - | - | 195,263,227 ** | 79.09 |
| Hong Leong Company (Malaysia) Berhad | - | - | 195,263,227 * | 79.09 |
| HL Holdings Sdn Bhd | - | - | 195,263,227 ** | 79.09 |
| Kwek Holdings Pte Ltd | - | - | 195,263,227 ** | 79.09 |
| Kwek Leng Beng | - | - | 195,263,227 ** | 79.09 |
| Hong Realty (Private) Limited | - | - | 195,263,227 ** | 79.09 |
| Hong Leong Investment Holdings Pte Ltd | - | - | 195,263,227 ** | 79.09 |
| Davos Investment Holdings Private Limited | - | - | 195,263,227 ** | 79.09 |
| Kwek Leng Kee | - | - | 195,263,227 ** | 79.09 |
| Quek Leng Chye | - | - | 195,263,227 ** | 79.09 |
| Guoco Assets Sdn Bhd | - | - | 195,263,227 * | 79.09 |
| Guoco Group Limited | - | - | 195,263,227 * | 79.09 |
| GuoLine Overseas Limited | - | - | 195,263,227 * | 79.09 |
| GuoLine Capital Assets Limited | - | - | 195,263,227 * | 79.09 |

* Held through Hong Leong Financial Group Berhad
** Held through Hong Leong Company (Malaysia) Berhad

# Other Information
(continued)

## 3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2010

Subsequent to the financial year end, there is no change, as at 30 August 2010, to the Directors' interests in the ordinary shares, preference shares and/or options over ordinary shares and convertible bonds of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 31 to 34 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 except for the changes set out below:

| | Number of ordinary shares/preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds | % |
|---|---|---|
| **Indirect Interest** | | |
| **YBhg Tan Sri Quek Leng Chan in:** | | |
| GuocoLeisure Limited | 908,175,425 | 66.38 |
| Hong Leong Industries Berhad | 198,585,237 @@ | 72.82 @@ |
| Bondway Properties Limited (In members' voluntary liquidation) | Nil # | Nil # |

@@ Inclusive of shares held by children who are not directors of the Company
\# Dissolved by members' voluntary liquidation

## 4. IMPOSITION OF SANCTIONS / PENALTIES

Bursa Malaysia Securities Berhad had on 29 June 2010 issued a private reprimand to Hong Leong Investment Bank Berhad ("HLIB") for failure to comply with two provisions of the Member Company Information Technology Security Code ("MCITS Code").

The Board of Directors and Management of HLIB have taken serious note of this non-compliance and have taken immediate remedial action to comply with the provisions of the MCITS Code and to ensure such non-compliance do not recur.

## 5. LIST OF PROPERTIES

| | Location | Tenure | Description of property held | Gross Area (Sq-ft) | Approx. Age (Years) | Net book value (RM '000) | Date of acquisition |
|---|---|---|---|---|---|---|---|
| 1. | 51-53, Persiaran Greenhill 30450 Ipoh, Perak | Freehold & leasehold -999 years | Branch premises | 4793 | 16 | 1,974 | 31/12/1993 |

**HLG Capital Berhad** (213006-U)
A Member of the Hong Leong Group

# FORM OF PROXY

I/We ____________________________________________________________

of ____________________________________________________________

being a member/members of HLG Capital Berhad, hereby appoint ______________________________

of ____________________________________________________________

or failing him/her ____________________________________________________________

of ____________________________________________________________

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Nineteenth Annual General Meeting of the Company to be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 26 October 2010 at 10.00 a.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote either on a show of hands or on a poll as indicated below with an "X":

| | RESOLUTIONS | FOR | AGAINST |
|---|---|---|---|
| 1. | To approve the payment of Directors' fees | | |
| 2. | To re-elect YBhg Tan Sri Quek Leng Chan as Director | | |
| 3. | To re-elect YBhg Dato' Mohamed Nazim bin Abdul Razak as Director | | |
| 4. | To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director pursuant to Section 129 of the Companies Act, 1965 | | |
| 5. | To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration | | |
| | **Special Business** | | |
| 6. | To approve the ordinary resolution on authority to Directors to issue shares | | |
| 7. | To approve the ordinary resolution on Proposed Shareholders' Mandate on recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and Persons Connected with HLCM | | |
| 8. | To approve the ordinary resolution on Proposed Shareholders' Mandate on recurrent related party transactions of a revenue or trading nature with Tower Real Estate Investment Trust | | |
| 9. | To approve the special resolution on Proposed Change of Name | | |

Dated this ____________________ day of ______________ 2010

______________________ ______________________
Number of shares held Signature of Member

***Notes:-***

1. If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
2. If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
3. A proxy need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
4. A member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where two proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in order for the appointments to be valid (please refer to note 7 below). Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
5. In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
6. All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time for holding the meeting or adjourned meeting.
7. In the event two (2) proxies are appointed, please fill in the ensuing section:

| Name of Proxies | % of shareholdings to be represented |
|---|---|
| | |
| | |