**Hong Leong Capital Berhad** (213006-U)
(formerly known as HLG Capital Berhad)
Level 8, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
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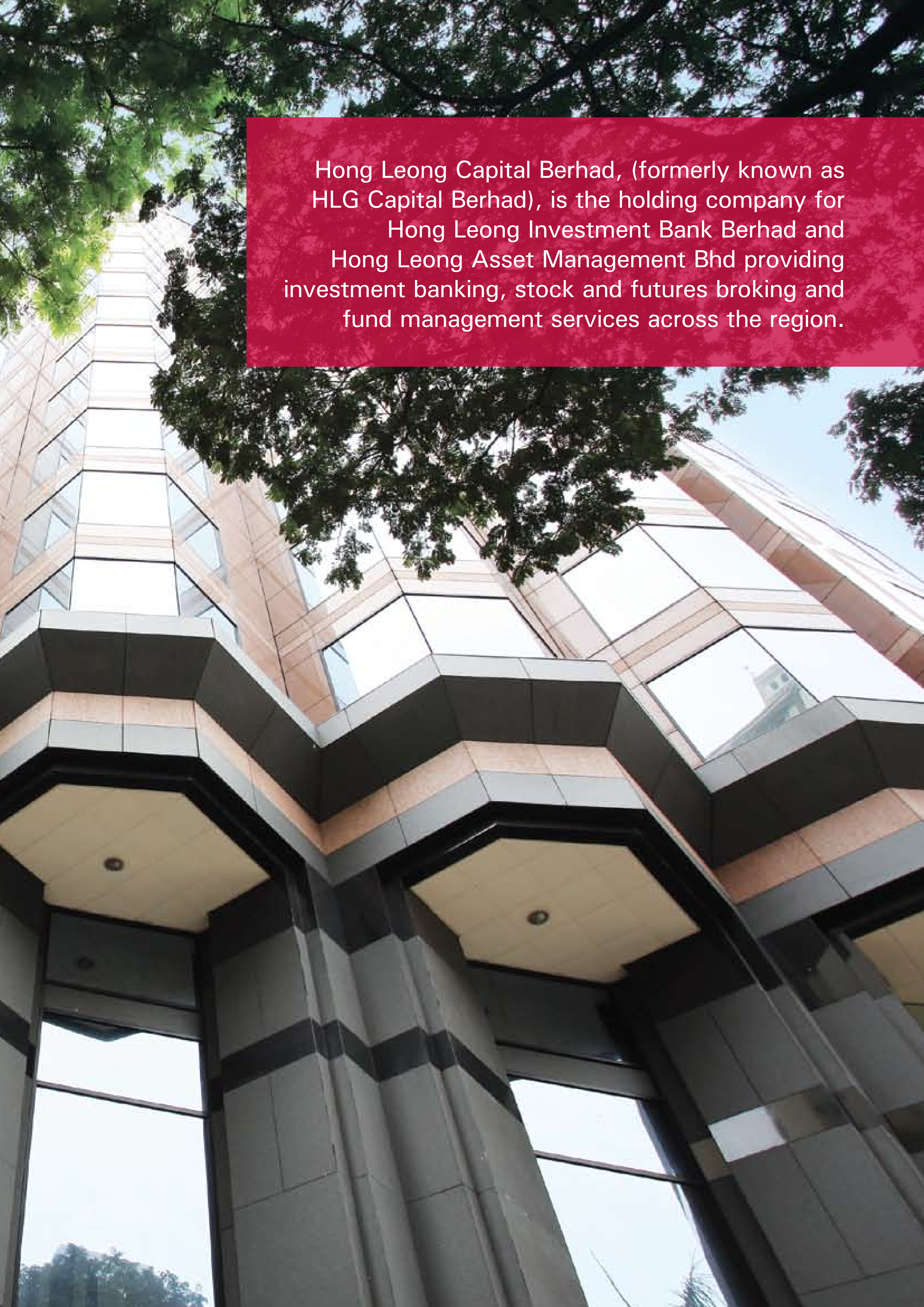
Hong Leong Capital Berhad (formerly known as HLG Capital Berhad)

ANNUAL REPORT 2011

# annual report 2011

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



Hong Leong Capital Berhad, (formerly known as HLG Capital Berhad), is the holding company for Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd providing investment banking, stock and futures broking and fund management services across the region.

# CONTENTS

## Corporate Section



## Financial Section



RM167.9 mil
Revenue (2010: RM91.7 mil)

RM50.5 mil
Profit before tax (2010: RM20.4 mil)

16.4 sen
Basic earnings per share (2010: 6.0 sen)

RM2.2 bil
Total assets (2010: RM1.5 bil)

# MEDIA HIGHLIGHTS

# INTRODUCTION

Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) an investment holding company listed on the main board of Bursa Malaysia Securities Berhad is part of the Hong Leong Financial Group Berhad, the holding company for Hong Leong Group's banking and financial services.

# INTRODUCTION
(continued)

Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) provides its diversified clients across the region with a wide range of investment solutions in the areas of investment banking, stock and futures broking and fund management services. This is undertaken through its subsidiaries Hong Leong Investment Bank Berhad and Hong Leong Asset Management Bhd.

Hong Leong Investment Bank Berhad consists of the Investment Banking division and the Stockbroking division.

The Investment Banking division was set up with a core team of experienced professionals specialising in the offering of capital markets, treasury products and services solutions. The core activities of this division include arranging and managing debt and equity fund raising, private debt securities ("PDS") issuances, syndicated loans, initial public offerings ("IPOs"), rights issues, restricted issues, special issues and private placements. Other corporate related advisory work undertaken by this division includes corporate restructuring, merger and acquisitions, asset and investment valuation, takeovers and privatisations and capital market instruments. Completing the comprehensive list of services, the Bank also offers debt and equity underwriting, deposit taking, treasury related solutions and trading and distribution.

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

Retail investors are supported by remisiers based at 3 locations – Kuala Lumpur, Petaling Jaya and Ipoh. Additionally, there is a specialised team of Priority Client Brokers who respond to the customised requirements of the high net worth investors. Hong Leong Investment Bank Berhad is also proud of its simple and responsive eBroking platform with a dedicated helpdesk and innovative product packages which cater for the different market segments.

Facilitating increasing client demands and broadening horizons, Hong Leong Investment Bank Berhad also provides margin financing for clients seeking leverage, whilst those looking beyond Malaysia as their geographical scope are also able to trade and invest in foreign markets.

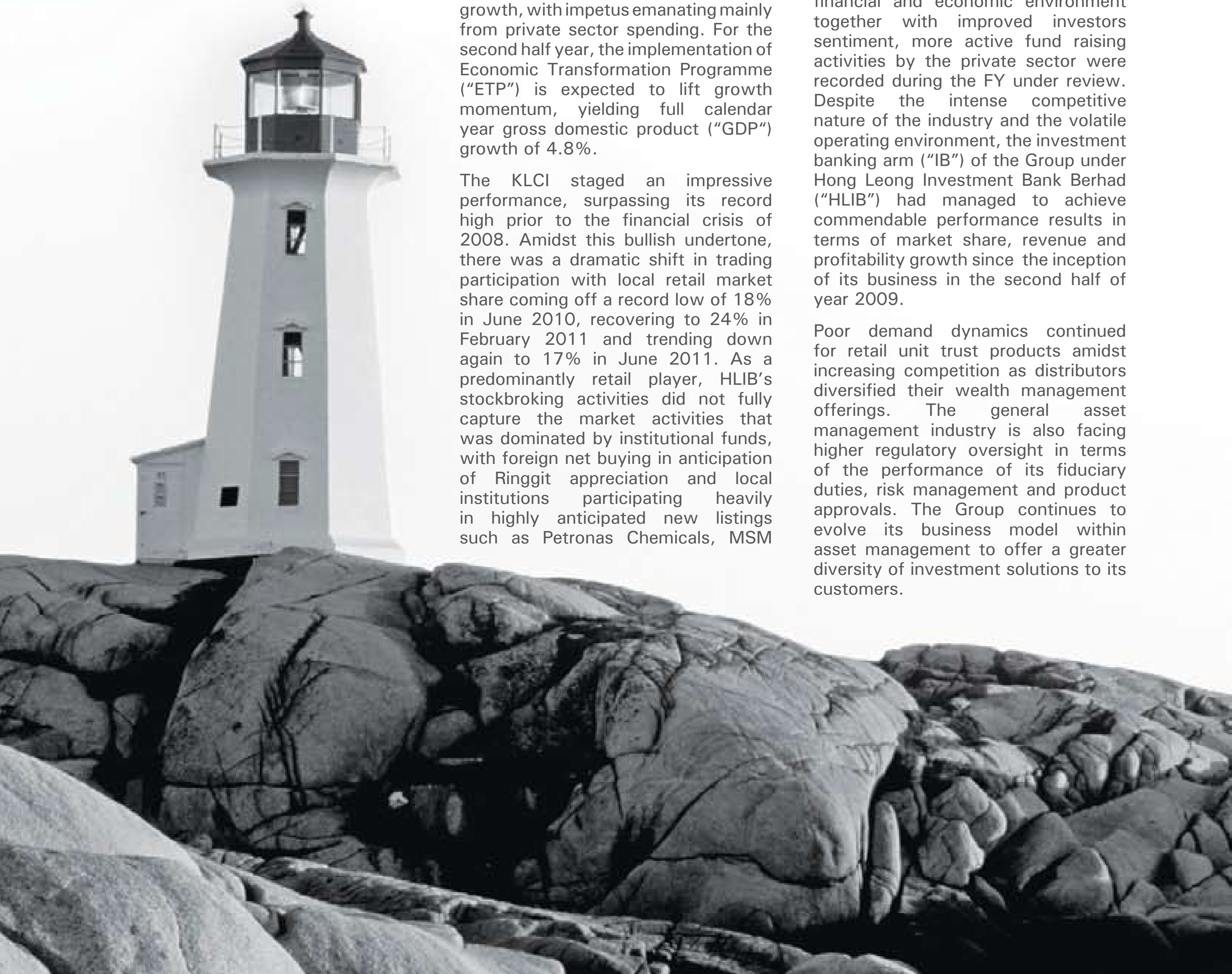
Hong Leong Asset Management Bhd is an established asset management company offering a comprehensive range of managed investment solutions across segregated assets and unit trust funds for state governments, insurance companies, endowments, family offices, corporations and high net worth individuals.

Hong Leong Asset Management Bhd's direct and channel distribution activities are supported by a strategic nationwide sales support infrastructure which includes their headquarters in Kuala Lumpur and six sales support offices nationwide in Kuala Lumpur, Ipoh, Penang, Johor Bahru, Kuching and Kota Kinabalu.

# CHAIRMAN'S STATEMENT

Dear shareholders and stakeholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Hong Leong Capital Berhad ("HL Cap" or "the Group") (formerly known as HLG Capital Berhad) for the financial year ("FY") ended 30 June 2011.



## OVERALL BUSINESS ENVIRONMENT

After a strong recovery of 7.2% in 2010, the Malaysian economy expanded at a more moderate pace in 1H 2011. Despite the heightened uncertainties in the external sector, strength in domestic demand provided the support for continued economic growth, with impetus emanating mainly from private sector spending. For the second half year, the implementation of Economic Transformation Programme ("ETP") is expected to lift growth momentum, yielding full calendar year gross domestic product ("GDP") growth of 4.8%.

The KLCI staged an impressive performance, surpassing its record high prior to the financial crisis of 2008. Amidst this bullish undertone, there was a dramatic shift in trading participation with local retail market share coming off a record low of 18% in June 2010, recovering to 24% in February 2011 and trending down again to 17% in June 2011. As a predominantly retail player, HLIB's stockbroking activities did not fully capture the market activities that was dominated by institutional funds, with foreign net buying in anticipation of Ringgit appreciation and local institutions participating heavily in highly anticipated new listings such as Petronas Chemicals, MSM Malaysia Holdings and Bumi Armada. Notwithstanding this, the Group's efforts to diversify its revenue base has borne fruit, with HLIB's monthly market share improving from 3.05% in July 2010 to 3.22% now.

At the local Capital Markets front (debt and equity), riding on the improved financial and economic environment together with improved investors sentiment, more active fund raising activities by the private sector were recorded during the FY under review. Despite the intense competitive nature of the industry and the volatile operating environment, the investment banking arm ("IB") of the Group under Hong Leong Investment Bank Berhad ("HLIB") had managed to achieve commendable performance results in terms of market share, revenue and profitability growth since the inception of its business in the second half of year 2009.

Poor demand dynamics continued for retail unit trust products amidst increasing competition as distributors diversified their wealth management offerings. The general asset management industry is also facing higher regulatory oversight in terms of the performance of its fiduciary duties, risk management and product approvals. The Group continues to evolve its business model within asset management to offer a greater diversity of investment solutions to its customers.

# CHAIRMAN'S STATEMENT
(continued)

## FINANCIAL PERFORMANCE

The Group recorded a profit after taxation of RM38.5 million for the financial year ended 30 June 2011 as compared to RM14.3 million in the previous corresponding year, an increase of RM24.2million or 169% year-on-year ("yoy").

The investment banking subsidiary Hong Leong Investment Bank Berhad ("HLIB"), achieved a profit before taxation of RM46.1 million as compared to RM18.9 million recorded in the previous financial year. The higher profitability of HLIB was mainly contributed by the strong performance from the investment banking business unit recording RM52 million in revenues. All three core business drivers namely Debt Markets, Equity Markets and Treasury & Markets recorded increased in business activities.

The stockbroking business also contributed to HLIB's profitability achieving better revenues arising from higher trading volumes on Bursa Malaysia of RM451.4 billion compared to RM333.2 billion in the previous financial year. HLIB's market share of volume traded on Bursa Malaysia increased to 3.2% in financial year 2011 from 3.1% in the previous financial year. Trading volumes on Bursa Malaysia were boosted by better investor sentiment arising from the recovery in global capital markets.

The Asset Management business recorded a profit before taxation of RM5.7 million compared to RM6.3 million recorded in the previous financial year. Contribution (net revenue) during the period increased 4% y-o-y to RM20.2m resulting from a change in the Assets Under Management ("AUM") mix and our resulting fee composition. However revenue remained under pressure due to poor demand for retail unit trusts and declining fees from "front-end load" ("FEL") retention. The decline in retail unit trust revenue was offsetted by higher fee revenue from segregated (discretionary), wholesale and transaction (IPO) segments.

Overall, earnings per share increased to 16.4 sen per share from 6.0 sen per share in the previous financial year. As we continue to build on our investment banking business, the Group has taken the decision to strengthen its capital base in anticipation of growth and opportunities that may arise looking ahead, including operating in an increasingly stricter regulatory capital environment. Hence no dividend has been recommended for the financial year 2011. HLIB's risk-weighted capital adequacy ratio stands at a healthy 36.1% as at 30 June 2011.

## CORPORATE DEVELOPMENTS

Malaysian Rating Corporation Berhad ("MARC") accorded a AA-/MARC-1 financial institution ratings with a stable outlook to HLIB on 30 June 2011.

The Group in its efforts to further build on its brand had achieved the following league table recognition for the first half of year 2011:-

**Ranked 6th**
on IFR Asia top bookrunners for RM Bonds;

**Ranked 5th**
on IFR Asia top bookrunners of Asia-Pacific Securitisation (ex Japan & Australia);

**Ranked 6th**
on IFR Asia top bookrunners of RM syndicated loans;

**Ranked 4th**
on IFR Asia Malaysia Global Equity and Equity-Related Products;

**Ranked 6th**
on Bloomberg DCM league table;

**Ranked 3rd**
on MARC league table in terms of total no. of issuances;

**Ranked 6th**
on MARC league table in terms of total issue size.

HLIB's broker ranking also improved for the second consecutive year from 12th to 11th in June 2011.

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

Moving forward, we expect our investment banking business unit to continue to be the core business and profit engine of HLIB. Apart from continuing with our efforts in growing our local market share, HLIB will also seek to explore and seize regional business opportunities, when they arise.

The key focus for the coming financial year is to continue to strengthen and build on our existing investment banking and asset management platforms. To achieve this and to stay relevant, we will continue to be responsive to changing market trends, harness market opportunities, whilst also leveraging on Hong Leong Group's customer relationships.

We shall also continue to enhance and streamline the Group's operations to be relevant in an intensely competitive industry. Last and not least, the development of human capital resources and the retention of talents will remain an important priority.

## 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*

23 September 2011

# 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, our customers, our employees and our stakeholders.

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

The Group's Graduate Development Programme aims to identify and develop young graduates from various disciplines like engineering, research & development, sales & marketing, finance, human resource and IT into talents to support the growth of the Group. The programme incorporates classroom training, on-the-job familiarisation, projects or learning assignments as well as mentoring.

For the non-executives, various in-house and external programmes are 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 30,000 spread across North Asia and Southeast Asia, and the UK, the Group develops talent regardless of race, gender or religious belief. Employee 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 and social initiatives. In this regard, various initiatives such as sports activities, social events and family day outings, 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)

"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."

Organised by the World Wildlife Fund, Earth Hour was conceived in Sydney in 2007. Since then, many other cities around the world have adopted the event which is 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 Hong Leong Foundation ("Foundation"), the charitable arm of Hong Leong Group. Since its incorporation in 1992, the Foundation's programmes have been funded by contributions from Group companies and focuses on education and community welfare as its key thrusts.

### Scholarship

The Foundation's Scholarship Programme benefits academically outstanding Malaysian students from low-income families and students with disabilities. The Foundation believes that providing scholarships is about providing opportunities – giving students the chance to have the higher education necessary to break the cycle of poverty.

Over RM2 million is allocated each year for diploma and undergraduate studies at local universities and selected institutions of higher learning within Malaysia. 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.

A separate fund has also been set aside for scholarship grants to deserving children of Group employees .

Both grants for the public and Group employees' children are unconditional – they do not carry any repayment requirement nor are the recipients bonded to work for the Group upon graduation.

### After School Care Program

In a competitive and fast-paced society, latchkey children from under-served areas can get left behind academically. The After School Care Programme with the cooperation of several participating schools, caters to this group of children. The programme provides homework, tutoring, revision guidance and a hot meal.

The Foundation currently has projects in Selangor, Negeri Sembilan, Johor and Sabah.

### School Building Fund

To enhance existing facilities for a better learning environment, the Foundation has made donations to various academic and vocational training institutions nationwide.

### Community Welfare

Under the Foundation's Community Welfare Programme, contributions in cash and in-kind are distributed to charities nationwide.

# CORPORATE SOCIAL RESPONSIBILITY
(continued)

For this financial year, contributions amounting to about RM2 million were made, among others, to Pertubuhan Keluarga Orang-Orang Bermasalah Pembelajaran Wilayah Persekutuan dan Selangor, Perak Association for Intellectually Disabled, Vinashini Home Seremban, Women's Aid Organisation, Home For the Aged (CWS) Simee and Sabah Cheshire Home.

**Community Partner Programme**

Our Community Partner Programme is based on the dual ideals of capacity building and empowerment. We work with a partner for a period of three years with an exit strategy. The aim of this programme is to provide holistic support from a wide range of issues from Human Resource to media to funding sustainability. At present, the Foundation works with our community partner, Science Of Life 24/7.

**Small Enterprise Programme**

The people behind the Group are entrepreneurs and we seek to propagate this same spirit of entrepreneurship to the community.

This year, our Small Enterprise Programme supported Silent Teddies Bakery, a bakery project initiated by the Community Service Center for the Deaf. We have in the past supported United Voice's Art Gallery, a charity that works with people with learning disabilities, Good Shepherd Bakery, a charity that offers a half way home for gender based violence, micro finance for the single mothers of Chow Kit through Yayasan Nur Salam and people living with HIV with the Malaysian Aids Council.


# CORPORATE INFORMATION

## 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.hlcap.com.my

# BOARD OF 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-Executive/ Non-Independent*

Aged 68, 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.

YBhg Tan Sri Quek is the Chairman of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) ("HLCB") and was appointed to the Board of Directors ("Board") of HLCB on 25 February 1991. YBhg Tan Sri Quek is also a member of the Nominating Committee ("NC") and Remuneration Committee ("RC") of HLCB.

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"); Chairman of Hong Leong Assurance Berhad ("HLA"), Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong Foundation; and a member of the Board of Trustees of The Community Chest, all public companies.

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

*Non-Executive Director/ Independent*

Aged 75, 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 HLCB on 5 August 1991. YBhg Tan Sri Khalid is also the Chairman of the Board Audit & Risk Management Committee ("BARMC") and NC of HLCB.

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 DATO' AHMAD FUAAD BIN MOHD DAHALAN

*Non-Executive Director/ Independent*

Aged 61, 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 ("MCS") 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 HLCB on 12 December 2005. He is a member of BARMC, NC and RC of HLCB.

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.

# BOARD OF DIRECTORS' PROFILE
(continued)

## YBHG DATO' MOHAMED NAZIM BIN ABDUL RAZAK

*Non-Executive Director/ Independent*

Aged 49, 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 NRY Architects Sdn Bhd.

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

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.

## MR CHOONG YEE HOW

*Non-Executive Director/ Non-Independent*

Aged 55, 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 27 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG.

Mr Choong was appointed to the Board of HLCB on 1 December 2005. He is a member of the NC of HLCB.

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

## MR QUEK KON SEAN

*Non-Executive Director/ Non-Independent*

Aged 31, 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 HLCB 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.

***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 HLCB, 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 HLCB.*

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

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

4. ***Attendance of Directors***
   *Details of Board meeting attendance of each director are disclosed in the Statement on Corporate Governance and Internal Control in the Annual Report.*

# BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

## CONSTITUTION

The Board Audit Committee of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) ("HLCB" 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)*

YBhg Dato' Mohamed Nazim bin Abdul Razak
*(Independent Non-Executive Director)*

## 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 HLCB 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.

## 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.

# BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT
(continued)

## MEETINGS (continued)

The Head of Operations, Head of Compliance of Hong Leong Investment Bank, Group Financial Controller, Group Chief Internal Auditor, Chief Risk Officer 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 2011, four (4) BARMC Meetings were held and the attendance of the Committee members was as follows:

| Member | Attendance |
|---|---|
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | 4/4 |
| YBhg Dato' Ahmad Fuaad bin Mohd Dahalan | 4/4 |
| YBhg Dato' Mohamed Nazim bin Abdul Razak | 2/4 |

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 2011, 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 2011 was RM624,000.

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*

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 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.

# CORPORATE GOVERNANCE AND INTERNAL CONTROL
(continued)

## A. DIRECTORS (continued)

### III Board Meetings

The Board met five (5) times during the financial year ended ("FYE") 30 June 2011 with timely notices of issues to be discussed. Details of attendance of each director are as follows:-

| Director | Attendance |
|---|---|
| **YBhg Tan Sri Quek Leng Chan** | 5/5 |
| **YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman** | 5/5 |
| **YBhg Dato' Ahmad Fuaad bin Mohd Dahalan** | 5/5 |
| **YBhg Dato' Mohamed Nazim bin Abdul Razak** | 4/5 |
| **Mr Choong Yee How** | 5/5 |
| **Mr Quek Kon Sean** | 5/5 |

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 deliberating 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 who have held office since the date of the last report and at the date of this report 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)*
Mr Choong Yee How *(Non-Independent Non-Executive Director)*

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.

# 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:- (continued)

- 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.

In connection with the appointment and re-appointment of Directors and Chief Executive Officers of the Company, the NC is guided by a Fit and Proper Policy.

The Fit and Proper Policy includes a policy in relation to the tenure for Independent Directors of the Company ("Tenure Policy"). Pursuant to the Tenure Policy, an independent director who had served on the board of directors of any company in the Hong Leong Financial Group Berhad and/or its subsidiaries for a period of 12 years continuously or more shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an independent director, upon:-

a) expiry of his term of office approved by BNM; or

b) the due date for his retirement either by rotation pursuant to the Articles of Association of the Company or pursuant to Section 129(2) of the Companies Act, 1965 as the case may be.

If the intention of the independent director is to continue in office, the NC shall consider the re-appointment based on the assessment criteria and guidelines set out in the Fit & Proper Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be submitted to BNM to seek clearance, in accordance with the BNM Guidelines.

During FYE 30 June 2011, two (2) NC Meetings were held and the attendance of the Committee members was as follows:

| Member | Attendance |
|---|---|
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | 2/2 |
| YBhg Tan Sri Quek Leng Chan | 2/2 |
| YBhg Dato' Ahmad Fuaad bin Mohd Dahalan | 2/2 |
| YBhg Dato' Mohamed Nazim bin Abdul Razak | 1/2 |
| Mr Choong Yee How | 2/2 |

The NC reviewed the membership of the Board, the professional qualifications and experience of the directors and was satisfied that the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills was adequate. The NC also reviewed the performance of the Board against its terms of reference and was satisfied that the Board was competent and effective in discharging its functions.

# CORPORATE GOVERNANCE AND INTERNAL CONTROL
(continued)

## A. DIRECTORS (continued)

### 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 FYE 30 June 2011, 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.

During FYE 30 June 2011, the Directors of the Company attended the following training programmes, seminars, briefings and/or workshops.

- BNM – Financial Institutions Directors' Education Programme
- Corporate Governance – The Holistic Board
- Securities Commission – Bursa Malaysia Corporate Governance Week 2010 – Towards Corporate Governance Excellence:
  - 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
- BNM – Global Islamic Finance Forum
- BNM – Financial Industry Forum
- BNM – Perbadanan Insurans Deposit Malaysia

## B. DIRECTORS' REMUNERATION

### I Level and make-up of remuneration

The Remuneration Committee ("RC") was established on 30 October 2008 and the members who have held office since the date of the last report and at the date of this report 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)*
YBhg Dato' Ahmad Fuaad bin Mohd Dahalan *(Independent Non-Executive Director)*

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.

# CORPORATE GOVERNANCE AND INTERNAL CONTROL
(continued)

## B. DIRECTORS' REMUNERATION (continued)

### I Level and make-up of remuneration (continued)

The RC's functions and responsibilities are set out in the terms of reference as follows:- (continued)

- 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 FYE 30 June 2011, one (1) RC Meeting was held and the attendance of the Committee members was as follows:

| Member | Attendance |
|---|---|
| YBhg Dato' Mohamed Nazim bin Abdul Razak | 1/1 |
| YBhg Tan Sri Quek Leng Chan | 1/1 |
| YBhg Dato' Ahmad Fuaad bin Mohd Dahalan | 1/1 |

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.

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

### II Procedure

The RC, 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 Annual General Meeting ("AGM").

### III Disclosure

The aggregate remuneration of Directors (including remuneration earned as directors of subsidiaries) for FYE 30 June 2011 is as follows:

| | Fees (RM) | Salaries & Other Emoluments (inclusive bonuses and benefits-in-kind) (RM) | Total (RM) |
|---|---|---|---|
| Executive Directors | - | - | - |
| Non-Executive Directors | 445,260 | 139,500 | 584,760 |

# CORPORATE GOVERNANCE AND INTERNAL CONTROL
(continued)

## B. DIRECTORS' REMUNERATION (continued)

### III Disclosure (continued)

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

| Range of remuneration (RM) | Executive | Non-Executive |
|---|---|---|
| 50,000 and below | - | 0 |
| 50,001 – 100,000 | - | 4 |
| 100,001 – 200,000 | - | 2 |

## 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.hlcap.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. : 03-2168 2611
Fax No. : 03-2161 2815
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.

## 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 2011 The attendance of the members are set out in the BARMC Report. The Group Financial Controller, Group Chief Internal Auditor, Head of Compliance, Chief Risk Officer 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.

# CORPORATE GOVERNANCE AND INTERNAL CONTROL
(continued)

## D. ACCOUNTABILITY AND AUDIT (continued)

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 which comprises all Independent and Non-Executive Directors 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.

During the financial year under review, 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.

## E. STATEMENT ON INTERNAL CONTROL

### I. Introduction

The Board recognizes the practice of good governance is an important continuous process and has established the BARMC to ensure maintenance of a sound system of internal controls and good risk management practices. The processes for risks and controls assessment and improvement are on-going continuously and are reviewed in accordance with the guidelines on the 'Statement on Internal Control: Guidance for Directors of Public Listed Companies'.

### II Responsibilities

The Board acknowledges its overall responsibility for the internal control environment and its effectiveness in safeguarding shareholders' interests and the Group's assets. The internal control framework is designed to manage rather than eliminate the risk of failure in the achievement of goals and objectives of the Group, and therefore only provide reasonable assurance and not absolute assurance, against material misstatement, losses or frauds.

# CORPORATE GOVERNANCE AND INTERNAL CONTROL
(continued)

## E. STATEMENT ON INTERNAL CONTROL (continued)

### II Responsibilities (continued)

The system of internal control that is instituted throughout the Group is updated from time to time to align with the dynamic changes in the business environment as well as process improvement initiatives undertaken. The Board confirms that its Management team responsibly implements the Board policies, procedures and guidelines on risks and controls.

### III Key Internal Control Processes

The key internal control processes that are established in reviewing the adequacy and integrity of the system of internal controls are as follows:

*a. 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 2011 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.

A Chief Risk Officer has been appointed to administer the Risk Management Framework of the Group. The primary responsibilities of the Chief Risk Officer are:

- periodically evaluate all identified risks for their relevance in the operating environment and inclusion in the Risk Management Framework;
- oversee and monitor the implementation of appropriate systems and controls to manage these risks;
- assess the adequacy of existing action plans and control systems developed to manage these risks;
- monitor the performance of management in executing the action plans and operating the control systems; and
- 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 Chief Risk Officer 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.

*b. 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 Key Internal Control Processes (continued)

#### *c. Compliance*

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 is kept informed of the causes and the remedial measures taken.

#### *d. Other major internal controls*

- The Board receives and reviews reports from the Management on the key operating statistics, business dynamics, legal matters and regulatory issues.

- The BARMC reviews and holds discussions with management on the actions taken on internal control issues identified in reports prepared by the GIAD, external auditors and regulatory authorities on quarterly basis.

- Policies on delegation and authority limits are strictly imposed to ensure a culture that respects integrity and honesty.

- Policies and procedures are set out in operation manuals and disseminated for easy reference and in support of a learning environment.

## 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 FYE 30 June 2011, 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 2011

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are securities and stock broking, investment banking, futures broking, provision of nominees and custodian services, unit trust management, fund management and sale of unit trusts 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.

## CHANGE OF NAME

On 4 November 2010, the Company changed its name from HLG Capital Berhad to Hong Leong Capital Berhad.

## FINANCIAL RESULTS

| | The Group | The Company |
|---|---|---|
| | RM'000 | RM'000 |
| Net profit for the financial year | 38,525 | 6,257 |

## DIVIDEND

No dividend has 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 2011.

## BUSINESS STRATEGY FOR THE CURRENT FINANCIAL YEAR

The business strategy for the current financial year is disclosed in the annual report.

## OUTLOOK AND BUSINESS PLAN FOR THE COMING FINANCIAL YEAR

The outlook and business plan for the coming financial year are disclosed in the annual report.

## CORPORATE GOVERNANCE

Disclosures on:

- Statement on Corporate Governance
- The Board of Directors ("Board") responsibility and oversight
- Risk Management
- Internal Audit and Internal Control Activities

The above are disclosed in the annual report.

# DIRECTORS' REPORT
for the financial year ended 30 June 2011
(continued)

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 44 to the financial statements.

## SIGNIFICANT EVENT AFTER THE FINANCIAL YEAR

Significant event after the financial year is disclosed in Note 45 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)* |

In accordance with Article 116 of the Company's Articles of Association, Mr Choong Yee How and YBhg Dato' Ahmad Fuaad bin Mohd Dahalan 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.

## STATEMENTS OF DIRECTORS' RESPONSIBILITY

In preparing the financial statements, the Directors have ensured that the Malaysian Accounting Standards Board (MASB) Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines, and the provisions of the Companies Act, have been complied with and reasonable and prudent judgements and estimates have been made.

It is the responsibility of the Directors to ensure that the financial statements of the Group and of the Company present a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2011 and of the results and cash flows of the Group and of the Company for financial year ended on that date.

The financial statements are prepared on a going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors have also overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and of the Company and for the implementation and continued operation of adequate accounting and internal control systems for the prevention and detection of fraud and other irregularities. The system of internal controls is designed to provide reasonable and not absolute assurance for achieving certain internal control standards and helps the Group and the Company manage the risk of failure to achieve business.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 122.

# DIRECTORS' REPORT
for the financial year ended 30 June 2011
(continued)

## DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or convertible bonds and/or options over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2011, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 are as follows:

| | Shareholdings in which Directors have direct 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 1.7.2010** | **Acquired** | **Sold** | **As at 30.6.2011** |
| **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 |
| Narra Industries Berhad | 1.00 | 8,150,200 | - | - | 8,150,200 |
| Guoco Group Limited | USD0.50 | 1,056,325 | - | - | 1,056,325 |
| GuocoLand Limited | ∞ | 10,000,000 | 3,333,333 ≈ | - | 13,333,333 |
| GuocoLand (Malaysia) Berhad | 0.50 | 19,506,780 | - | - | 19,506,780 |
| GuocoLeisure Limited | USD0.20 | 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 Industries Berhad ("HLI") | 0.50 | 52,800 | 26,400 ≈ | (26,400) ® | 52,800 |
| Hong Leong Bank Berhad | 1.00 | 400,000 | - | - | 400,000 |
| Malaysian Pacific Industries Berhad ("MPI") | 0.50 | 1,000 | 19,800 + | - | 20,800 |
| **Interest of Mr Choong Yee How in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | - | 960,000 ¥ | - | 960,000 |
| | 1.00 | 6,800,000 * | - | (960,000) *¥ | 5,840,000 * |
| **Interest of Mr Quek Kon Sean in:** | | | | | |
| Hong Leong Financial Group Berhad | 1.00 | - | 300,000 ¥ | - | 300,000 |
| | 1.00 | 2,125,000 * | - | (300,000) *¥ | 1,825,000 * |

# DIRECTORS' REPORT

for the financial year ended 30 June 2011
(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 1.7.2010 | Acquired | Sold | As at 30.6.2011 |
| **Interests of YBhg Tan Sri Quek Leng Chan in:** | | | | | |
| Hong Leong Company (Malaysia) Berhad | 1.00 | 13,019,100 | 50,000 | - | 13,069,100 |
| Hong Leong Financial Group Berhad | 1.00 | 824,437,300 | - | - | 824,437,300 |
| Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) | 1.00 | 195,263,227 | - | - | 195,263,227 |
| Hong Leong Bank Berhad | 1.00 | 967,739,600 | 603,200 | (126,700) | 968,216,100 |
| Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad) | 1.00 | 65,000,000 | 35,000,000 | (35,000,000) | 65,000,000 |
| Hong Leong Assurance Berhad | 1.00 | 200,000,000 | - | (60,000,000) | 140,000,000 € |
| Hong Leong Industries Berhad | 0.50 | 198,269,837 @@ | 170,935,068 @@♀ | (123,068,302) ®@@ | 246,136,603 @@ |
| Hong Leong Yamaha Motor Sdn Bhd | 1.00 | 17,352,872 | - | - | 17,352,872 |
| | 1.00 | - | 6,941 ## | - | 6,941 ## |
| 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 |

# DIRECTORS' REPORT
for the financial year ended 30 June 2011
(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 1.7.2010 | Acquired | Sold | As at 30.6.2011 |
| **Interests of YBhg Tan Sri Quek Leng Chan in:** (continued) | | | | | |
| Guocera Tile Industries (Vietnam) Co., Ltd | ◆ | - | 5,286,500 | - | 5,286,500 |
| Malaysian Pacific Industries Berhad | 0.50 | 133,601,009 | 92,301,226 +@@ | (23,400) | 110,245,457 @@ |
| | | | 4,168,925 ø | (119,802,303) « | |
| 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 ## |
| Narra Industries Berhad | 1.00 | 38,314,000 | - | - | 38,314,000 |
| Guoco Group Limited | USD0.50 | 235,798,529 | - | - | 235,798,529 |
| GuocoLand Limited | ∞ | 614,133,274 @@ | 205,111,089 @@♀ | - | 819,244,363 @@ |
| | | 8,461,946 * | - | (94,625) * | 8,724,438 *▲ |
| First Garden Development Pte Ltd | ∞ | 63,000,000 | - | - | 63,000,000 |
| Sanctuary 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 |
| 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 |

# DIRECTORS' REPORT

for the financial year ended 30 June 2011
(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 1.7.2010 | Acquired | Sold | As at 30.6.2011 |
| **Interests of YBhg Tan Sri Quek Leng Chan in:** (continued) | | | | | |
| Belmeth Pte. Ltd. | [∞] | - | 40,000,000 | - | 40,000,000 |
| Guston Pte. Ltd. | [∞] | - | 8,000,000 | - | 8,000,000 |
| Perfect Eagle Pte. Ltd. | [∞] | 1 | 23,999,999 | - | 24,000,000 [€] |
| Lam Soon (Hong Kong) Limited | HKD1.00 | 140,008,659 | - | - | 140,008,659 |
| Kwok Wah Hong Flour Company Limited | HKD100.00 | 9,800 | - | - | 9,800 |
| M.C. Packaging Offshore Limited | HKD0.01 | 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 [@@] | - | (10,500,000) [@@] | 456,055,616 |
| 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 |
| | 0.01 | 68,594,000 [##] | - | - | 68,594,000 [##] |
| GuocoLeisure Limited | USD0.20 | 907,809,425 | 10,692,000 | - | 918,501,425 |
| Bondway Properties Limited | GBP1.00 | 1,134,215 [¤] | - | (1,134,215) [¤ψ] | - |
| (In Members' Voluntary Liquidation) | GBP1.00 | 10,332 [¤¤] | - | (10,332) [¤¤ψ] | - |
| The Rank Group Plc | GBP13$^{8/9}$p | 220,225,312 [►] | 45,819,079 [Δ] | - | 266,044,391 |
| Park House Hotel Limited | GBP10p | 2,883,440 [►] | - | - | 2,883,440 |
| **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] |
| Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) | 1.00 | 100,000 [N1] | - | - | 100,000 [N1] |

# DIRECTORS' REPORT
for the financial year ended 30 June 2011
(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 1.7.2010 | Acquired | Sold | As at 30.6.2011 |
| **Interests of Mr Quek Kon Sean in:** | | | | | |
| Hong Leong Industries Berhad | 0.50 | 750,000 | 375,000 ≈ | (375,000) ® | 750,000 |
| Malaysian Pacific Industries Berhad | 0.50 | - | 281,250 + | - | 281,250 |

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 HKD
◆ Capital contribution in VND
@@ Inclusive of shares held pursuant to Section 134(12)(c) of the Companies Act, 1965
€ Became a non-wholly owned subsidiary during the financial year
## Redeemable Preference Shares
¤ Ordinary - Voting Shares
¤¤ Ordinary - Non Voting Shares
+ Entitlement to MPI shares pursuant to capital distribution by HLI to entitled shareholders of HLI via a reduction of the share capital and cancellation of the share premium reserve of HLI
« Capital distribution by HLI to entitled shareholders of HLI
® Cancellation pursuant to a reduction of share capital
ø Acquired from trusts set up for an approved executive share option scheme
♀ Inclusive of shares acquired from rights issue
≈ Shares acquired from rights issue
▲ After adjustment of the conversion price of the convertible bonds
► Shareholding as at 7 June 2011 as the corporation became a related corporation
Δ Acceptances received for shares in respect of mandatory cash offer
¥ Exercise of share options
N1 Shares held pursuant to Section 134(12)(c) of the Companies Act, 1965
ψ Dissolved during the financial year

# DIRECTORS' REPORT

for the financial year ended 30 June 2011
(continued)

## DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received any benefits (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 30 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 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.

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 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 shares 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 would 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.

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 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.

# DIRECTORS' REPORT

for the financial year ended 30 June 2011
(continued)

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

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 statement of financial position. The cost of operating the ESOS scheme is charged to the profit or loss.

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.

## SHARE CAPITAL

There was no change in the issued and paid-up capital of the Company during the financial year.

## STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

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

Before the financial statements 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.

**(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 2011 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.

# DIRECTORS' REPORT
for the financial year ended 30 June 2011
(continued)

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

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

(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 immediate holding and ultimate holding companies are Hong Leong Financial Group Berhad ("HLFG") and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia. HLFG is listed on the Main Market of Bursa Malaysia Securities Berhad.

## 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 28 July 2011.

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

**CHOONG YEE HOW**
**Director**

Kuala Lumpur
20 September 2011

# STATEMENTS OF FINANCIAL POSITION
as at 30 June 2011

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM'000 | Restated 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Assets** | | | | | |
| Cash and short term funds | 2 | 887,262 | 722,645 | 10,157 | 230 |
| Reverse repurchase agreements | | 159,684 | - | - | - |
| Deposits and placements with banks and other financial institutions | 3 | 60,125 | 45,070 | - | - |
| Financial assets held-for-trading | 4 | 430,746 | 431,783 | 477 | 372 |
| Financial investments available-for-sale | 5 | 74,882 | 2,445 | - | - |
| Financial investments held-to-maturity | 6 | 112,647 | 10,000 | - | - |
| Derivative financial assets | 18 | 5,358 | 23 | - | - |
| Loans and advances | 7 | 107,975 | 117,926 | - | - |
| Clients' and brokers' balances | 8 | 169,733 | 88,798 | - | - |
| Other assets | 9 | 68,635 | 17,222 | 110 | 2,869 |
| Statutory deposits with Bank Negara Malaysia | 10 | 17,800 | 4,000 | - | - |
| Tax recoverable | | 605 | 810 | 1,306 | 2,312 |
| Investment in subsidiary companies | 11 | - | - | 268,189 | 270,189 |
| Deferred tax assets | 12 | 42,311 | 53,038 | - | - |
| Property and equipment | 13 | 8,354 | 6,934 | - | - |
| Goodwill | 14 | 33,059 | 33,059 | - | - |
| Intangible assets | 15 | 1,094 | 1,339 | - | - |
| **Total assets** | | 2,180,270 | 1,535,092 | 280,239 | 275,972 |
| **Liabilities** | | | | | |
| Deposits from customers | 16 | 395,243 | 31,218 | - | - |
| Deposits and placements of banks and other financial institutions | 17 | 747,999 | 600,990 | - | - |
| Derivative financial liabilities | 18 | 5,159 | 1,194 | - | - |
| Clients' and brokers' balances | 19 | 591,595 | 262,415 | - | - |
| Other liabilities | 20 | 79,467 | 312,995 | 601 | 666 |
| Current tax liabilities | | 417 | 204 | - | - |
| Borrowings | 21 | 20,075 | 22,000 | 20,075 | 22,000 |
| **Total liabilities** | | 1,839,955 | 1,231,016 | 20,676 | 22,666 |
| **Equity** | | | | | |
| Share capital | 22 | 246,896 | 246,896 | 246,896 | 246,896 |
| Reserves | 23 | 106,622 | 70,383 | 25,870 | 19,613 |
| Treasury shares for ESOS scheme | 24 | (13,203) | (13,203) | (13,203) | (13,203) |
| **Total equity** | | 340,315 | 304,076 | 259,563 | 253,306 |
| **Total equity and liabilities** | | 2,180,270 | 1,535,092 | 280,239 | 275,972 |
| **Commitments and contingencies** | 34 | 2,958,703 | 3,492,940 | - | - |

# INCOME STATEMENTS
for the financial year ended 30 June 2011

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Interest income | 25 | 60,125 | 15,998 | 95 | 205 |
| Interest expense | 26 | (40,450) | (6,279) | (797) | (2,182) |
| Net interest income/(expense) | | 19,675 | 9,719 | (702) | (1,977) |
| Non-interest income | 27 | 107,788 | 75,740 | 7,864 | 4,162 |
| | | 127,463 | 85,459 | 7,162 | 2,185 |
| Overhead expenses | 28 | (77,705) | (63,972) | (893) | (2,636) |
| Operating profit/(loss) before allowances | | 49,758 | 21,487 | 6,269 | (451) |
| Writeback of/(allowance for) impairment losses on loans and advances and other losses | 29 | 748 | (1,041) | - | - |
| Profit/(loss) before taxation | | 50,506 | 20,446 | 6,269 | (451) |
| Taxation | 31 | (11,981) | (6,192) | (12) | - |
| Net profit/(loss) for the financial year | | 38,525 | 14,254 | 6,257 | (451) |
| **Earnings per share (sen)** | | | | | |
| - Basic | 32 | 16.4 | 6.0 | | |

# STATEMENTS OF COMPREHENSIVE INCOME
for the financial year ended 30 June 2011

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Net profit/(loss) for the financial year | | 38,525 | 14,254 | 6,257 | (451) |
| Other comprehensive income: | | | | | |
| Net fair value changes on financial investments available-for-sale | | 74 | - | - | - |
| Income tax relating to net fair value changes on financial investments available-for-sale | 12 | (18) | - | - | - |
| Other comprehensive income for the financial year, net of tax | | 56 | - | - | - |
| Total comprehensive income/(expense) for the financial year | | 38,581 | 14,254 | 6,257 | (451) |

# STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2011

| | | ← Attributable to owners of the parent → | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| The Group | Note | Share capital RM'000 | Treasury shares for ESOS scheme RM'000 | Statutory reserve RM'000 | Share options reserve RM'000 | Fair value reserve RM'000 | General reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| At 1 July 2010 | | 246,896 | (13,203) | 11,044 | - | - | 543 | 58,796 | 304,076 |
| - effects of adopting FRS 139 | 46 | - | - | - | - | - | - | (2,630) | (2,630) |
| At 1 July 2010, as restated | | 246,896 | (13,203) | 11,044 | - | - | 543 | 56,166 | 301,446 |
| Net profit for the financial year | | - | - | - | - | - | - | 38,525 | 38,525 |
| Other comprehensive income, net of tax | | - | - | - | - | 56 | - | - | 56 |
| Total comprehensive income | | - | - | - | - | 56 | - | 38,525 | 38,581 |
| Transfer to statutory reserve | | - | - | 17,178 | - | - | - | (17,178) | - |
| Grant of equity-settled ESOS | | - | - | - | 288 | - | - | - | 288 |
| At 30 June 2011 | | 246,896 | (13,203) | 28,222 | 288 | 56 | 543 | 77,513 | 340,315 |
| At 1 July 2009 | | 123,448 | (3,973) | 4,362 | - | - | 543 | 51,724 | 176,104 |
| Net profit for the financial year | | - | - | - | - | - | - | 14,254 | 14,254 |
| Total comprehensive income | | - | - | - | - | - | - | 14,254 | 14,254 |
| Issued during the year | 22 | 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 |

# STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2011 (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 2010 | | 246,896 | (13,203) | 19,613 | 253,306 |
| Net profit for the financial year | | - | - | 6,257 | 6,257 |
| Total comprehensive income | | - | - | 6,257 | 6,257 |
| At 30 June 2011 | | 246,896 | (13,203) | 25,870 | 259,563 |
| At 1 July 2009 | | 123,448 | (3,973) | 20,564 | 140,039 |
| Net loss for the financial year | | - | - | (451) | (451) |
| Total comprehensive expense | | - | - | (451) | (451) |
| Issued during the year | 22 | 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 |

# STATEMENTS OF CASH FLOWS
for the financial year ended 30 June 2011

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| **Cash flows from operating activities** | | |
| Profit before taxation | 50,506 | 20,446 |
| Adjustments for: | | |
| Depreciation of property and equipment | 2,412 | 1,876 |
| Amortisation of intangible assets | 835 | 677 |
| Option charge arising from ESOS | 288 | - |
| Gain on disposal of property and equipment | (27) | (321) |
| (Writeback of)/allowances for losses on loans and advances and advances | (581) | 709 |
| Allowance for losses on clients' and brokers' balances | 111 | 373 |
| Net unrealised loss/(gain) on revaluation: | | |
| - Financial assets held-for-trading | 913 | (2,655) |
| - Derivatives | (1,363) | 1,177 |
| Interest income from: | | |
| - Financial assets held-for-trading | (30,061) | (2,603) |
| - Financial investments available-for-sale | (5,788) | (2,328) |
| - Financial investments held-to-maturity | (2,203) | (292) |
| Interest expense on borrowings | 844 | 2,332 |
| Dividend income from: | | |
| - Financial assets held-for-trading | (705) | (598) |
| - Financial investments available-for-sale | (92) | (37) |
| | (35,417) | (1,690) |
| **Operating profit before working capital changes** | 15,089 | 18,756 |
| **(Increase)/decrease in operating assets** | | |
| Reverse repurchase agreements | (159,684) | - |
| Deposits and placements with banks and other financial institutions | (15,055) | (44,997) |
| Financial assets held-for-trading | 30,178 | (423,862) |
| Financial investments available-for-sale | (66,575) | (10,000) |
| Financial investments held-to-maturity | (100,444) | - |
| Loans and advances | 7,026 | (36,296) |
| Clients' and brokers' balances | (81,046) | 58,922 |
| Other assets | (85,207) | 614 |
| Statutory deposits with Bank Negara Malaysia | (13,800) | (4,000) |
| **Increase/(decrease) in operating liabilities** | | |
| Deposits from customers | 364,025 | 31,218 |
| Deposits and placements of banks and other financial institutions | 147,009 | 591,170 |
| Clients' and brokers' balances | 329,180 | (16,614) |
| Other liabilities | (475,143) | 258,423 |
| | (119,536) | 404,578 |
| **Cash (used in)/generated from operations** | (104,447) | 423,334 |
| Net income tax refunded/(paid) | 28 | (737) |
| **Net cash (used in)/generated from operating activities** | (104,419) | 422,597 |

# STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2011
(continued)

| | Note | The Group 2011 RM'000 | The Group 2010 RM'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Dividends received from: | | | |
| - Financial assets held-for-trading | | 705 | 598 |
| - Financial investments available-for-sale | | 86 | 37 |
| Interest received from financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity | | 33,794 | 1,218 |
| Proceeds from disposal of property and equipment | | 27 | 475 |
| Purchase of property and equipment | | (3,832) | (3,082) |
| Purchase of intangible assets | | (590) | (1,034) |
| Goodwill arising from capitalisation of merger cost | | - | (236) |
| **Net cash generated from/(used in) investing activities** | | 30,190 | (2,024) |
| | | | |
| **Cash flows from financing activities** | | | |
| Interest paid on borrowings | | (844) | (1,802) |
| Purchase of treasury shares for ESOS scheme | | - | (9,230) |
| Net cash from rights issue | | - | 122,948 |
| Repayments of borrowings | | (1,925) | (124,900) |
| **Net cash used in financing activities** | | (2,769) | (12,984) |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (76,998) | 407,589 |
| **Cash and cash equivalents at beginning of year** | | 515,442 | 107,853 |
| **Cash and cash equivalents at end of year** | | 438,444 | 515,442 |
| | | | |
| **Cash and cash equivalents comprise:** | | | |
| Cash and short term funds | 2 | 887,262 | 722,645 |
| Less: Remisiers' and clients' trust monies | | (448,818) | (207,203) |
| | | 438,444 | 515,442 |

# STATEMENTS OF CASH FLOWS

for the financial year ended 30 June 2011
(continued)

| | Note | The Company 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before taxation | | 6,269 | (451) |
| Adjustments for: | | | |
| Unrealised gain on securities held-for-trading | | (105) | (30) |
| Gain on liquidation of a subsidiary | | (6,050) | - |
| Interest expense on borrowings | | 797 | 2,182 |
| Interest income | | (95) | (205) |
| Dividend income from subsidiary companies | | (1,700) | (4,122) |
| | | (7,153) | (2,175) |
| **Operating loss before working capital changes** | | (884) | (2,626) |
| Decrease in receivables | | 2,759 | 8,279 |
| Decrease in payables | | (65) | (105) |
| **Cash generated from operating activities** | | 1,810 | 5,548 |
| Income tax refunded | | 1,419 | - |
| Interest received | | 95 | 205 |
| **Net cash generated from operating activities** | | 3,324 | 5,753 |
| **Cash flows from investing activities** | | | |
| Dividend income from subsidiary companies | | 1,275 | 3,173 |
| Net proceed from liquidation of a subsidiary | | 8,050 | - |
| Purchase of treasury shares for ESOS scheme | | - | (9,230) |
| **Net cash generated from/(used in) investing activities** | | 9,325 | (6,057) |
| **Cash flows from financing activities** | | | |
| Net cash from rights issue | | - | 122,948 |
| Interest paid on borrowings | | (797) | (2,182) |
| Repayments of borrowings | | (1,925) | (124,900) |
| **Net cash used in financing activities** | | (2,722) | (4,134) |
| **Net increase/(decrease) in cash and cash equivalents** | | 9,927 | (4,438) |
| **Cash and cash equivalents at beginning of year** | | 230 | 4,668 |
| **Cash and cash equivalents at end of year** | | 10,157 | 230 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and short term funds | 2 | 10,157 | 230 |

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011

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 financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets held-for-trading, financial investments available-for-sale and derivative financial instruments.

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.

**(i) Standards, amendments to published standards and interpretations that are applicable to the Group and the Company and are effective**

The new accounting standards, amendments and improvements to published standards and interpretations that are applicable and effective for the Group and Company's financial year beginning on or after 1 July 2010 are as follows:

- FRS 3 (revised) "Business Combinations"
- FRS 7 "Financial Instruments: Disclosures" and the related amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 123 "Borrowing Costs"
- FRS 127 (revised) "Consolidated and Separate Financial Statements"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related amendments ("FRS 139")
- Amendments to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations"
- Amendments to FRS 132 "Financial Instruments: Presentation" and FRS 101 (revised) "Presentation of Financial Statements" - Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions"
- Improvements to FRSs (2009 & 2010)

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Group and the Company is set out in Note 46.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

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

**(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective**

- Amendments to FRS 2 "Share-based payment: Group, cash-settled share based payment transactions" (effective from 1 January 2011) clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the Group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments also incorporate guidance previously included in IC Interpretation 8 "Scope of FRS 2" and IC Interpretation 11 "FRS 2 - Group and Treasury Share Transactions", which shall be withdrawn on application of these amendments.

- Amendments to FRS 7 "Improving Disclosures about Financial Instruments" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendments require disclosure of fair value measurements by level of a fair value measurement hierarchy.

- IC Interpretation 4 "Determining whether an arrangement contains a lease" (effective from 1 January 2011) requires the Group to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangement are, or contain, leases. The assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 "Leases" should be applied to the lease element of the arrangement.

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of financial liabilities with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into entity with no gain or loss recognised in profit or loss.

- FRS 101 "Presentation of financial statements" (effective from 1 January 2011) removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity.

The Group and the Company will apply these standards from financial year beginning on or after 1 July 2011. The adoption of these new standards, amendments to published standards and interpretations are not expected to have a material impact to the financial results of the Group and the Company.

- The revised FRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

  - The name of the government and the nature of their relationship;
  - The nature and amount of each individual siginificant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

The Group and the Company will apply this standard from financial year beginning on or after 1 July 2012. The adoption of this standard is not expected to have a material impact to the financial results of the Group and the Company.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## B CONSOLIDATION

### (i) Subsidiaries

The Company treats as subsidiaries those corporations, partnerships or other entities (including special purpose entities) in which the Company 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The consolidated financial statements include the financial statements of the Company and all its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries are prepared in the same reporting date as the Company.

Subsidiaries are fully 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.

The consideration transferred for acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

In a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at acquisition date fair value and the resulting gain or loss is recognised in the profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the gain is recognised in the profit or loss.

### (ii) Changes in ownership interest

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value is its fair value on initial recognition as a financial asset in accordance with FRS 139. Any amounts previously recognised in other comprehensive income in respect of the entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

### (iii) Investments in subsidiaries

In the Company's financial statements, the investments in subsidiaries are stated at cost less impairment losses. At each reporting date, the Company assesses whether there is an indication of impairment. If such indication exist, an analysis is performed to assess whether the carrying amount of the investment is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the profit or loss.

## 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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## C GOODWILL (continued)

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. Each CGU represents the lowest level at which the goodwill is mentioned and is not larger than a reportable business segment. Impairment testing is performed annually by comparing the present value of the CGU's projected cash flows against the carrying amount of its net assets which include allocated goodwill. Refer to Note T on impairment of non-financial assets.

## D PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the profit or loss during the financial period in which they are incurred. 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 land | Over the lease period of 999 years |
| Leasehold building | Over the remaining period of the lease or 50 years whichever is shorter |
| Office and computer equipment | 20%-33% |
| Furniture and fittings | 20% |
| Renovations | 20% |
| Motor vehicles | 20% |

The assets' residual value and useful lives are reviewed and adjusted if appropriate, at each reporting period.

Property and equipment are reviewed for impairment at each reporting date and whenever events or changes in circumtances 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. Any subsequent increase in the recoverable amount is recognised in the profit or loss. Refer to Note T on 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 in profit or loss.

## 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 any accumulated impairment losses and are amortised over their estimated useful lives.

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

# SUMMARY
# OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## F LEASES

### (a) Finance lease

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Group or the Company are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to the profit or loss.

### (b) Operating lease

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payment made under operating lease are charged to the profit or loss on a straight line basis over the period of the lease.

When an 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 in which termination takes place.

**Change In Accounting Policy**

From the adoption of the improvement to FRS 117 “Leases”, leasehold land in which the Group has substantially all the risks and rewards incidental to ownership have been reclassified retrospectively from operating lease to finance lease.

Previously, leasehold land was classified as an operating lease unless title is expected to pass to the lessee at the end of the lease term.

Refer to Note 46 for the impact of this change in accounting policy.

## G FINANCIAL ASSETS

### (a) Classification

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

#### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise financial assets held-for-trading and other financial assets designated by the Group and the Company as fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## G FINANCIAL ASSETS (continued)

### (a) Classification (continued)

#### *(iii) Financial investments held-to-maturity*

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

#### *(iv) Financial investments available-for-sale*

Financial investments available-for-sale 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 rate, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, loans and receivables and financial investments held-to-maturity.

### (b) Recognition and initial measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the profit or loss.

### (c) Subsequent measurement

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit or loss in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in equity, until the securities are derecognised or impaired at which time the cumulative gains or losses previously recognised in equity are recognised in the profit or loss. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the profit or loss in the period it arises.

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from de-recognition or impairment of the securities are recognised in the profit or loss.

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

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including the transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the profit or loss. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss.

**Change In Accounting Policy**

The Group and the Company have changed its accounting policy for financial assets upon adoption of FRS 139 on 1 July 2010.

Upon adoption of FRS 139, interest receivable previously classified under other assets are now reclassified into the respective category of financial assets.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## G FINANCIAL ASSETS (continued)

**Change In Accounting Policy** (continued)

The Group and the Company have applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated.

Refer to Note 46 for the impact of this change in accounting policy.

## H FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

**(a) Financial liabilities at fair value through profit or loss**

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated at fair value through profit or loss upon initial recognition. The Group does not have any non-derivative financial liabilities designated at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments.

**(b) Financial liabilities at amortised cost**

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost.

**Change in accounting policy**

Upon adoption of FRS 139, interest payable previously classified under other liabilities are now reclassified into the respective category of financial liabilities.

The Group and the Company have applied the new policy according to the transitional provisions by re-measuring all financial liabilities, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated.

Refer to Note 46 for the impact of this change in accounting policy.

## I SALE AND REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Group and the Company have purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the statement of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Company have sold from its portfolio, with a commitment to repurchase at future dates. Such financing and the obligation to repurchase the securities is reflected as a liability on the statement of financial position.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## I SALE AND REPURCHASE AGREEMENTS (continued)

The difference between sale and repurchase price as well as purchase and resale price are amortised as interest income and interest expense respectively on an effective yield method.

## J CLIENTS' AND BROKERS' BALANCES

In line with the implementation of FRS 139, Bursa Malaysia Securities Berhad (the "Bursa") has amended the Rules of Bursa Securities issued on 4 November 2010. In accordance with the Rules of Bursa Securities, clients' accounts are classified as impaired accounts (previously referred to as non-performing) under the following circumstances:

| | Criteria for classification as impaired | |
|---|---|---|
| **Types** | **Doubtful** | **Bad** |
| Contra losses | When account remains outstanding for 16 to 30 calendar days from the date of contra transaction | When account remains outstanding for more than 30 calendar days from the date of contra transaction |
| Overdue purchase contracts | When account remains outstanding from T+3 market days to 30 calendar days | When account remains outstanding for more than 30 calendar days |

Bad debts are written off when identified. Impairment allowances are made for balances due from clients and brokers which are considered doubtful or which have been classified as impaired, after taking into consideration collateral held by the Group and deposits of and amounts due to dealer representative in accordance with the Rules of Bursa Securities.

## K 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 profit or loss.

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 the profit or loss immediately.

## L MANAGER'S STOCKS AND CONSUMABLES

Manager's stocks represent units in the unit trust funds managed by the unit trust management subsidiary. Manager's stocks are classified as a financial asset at fair value through profit or loss. Consumables for future use are stated at cost and are written off when they are not foreseen to be used.

## M 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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## N BORROWINGS

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

## O 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 profit or loss together with the deferred gain or loss.

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

## P PROVISIONS

Provisions are recognised by the Group and the Company when all of the following conditions have been met:

(i) the Group and the Company have a present legal or constructive obligation as a result of past events;

(ii) it is probable that an outflow of resources to settle the obligation will be required; and

(iii) a reliable estimate of the amount of obligation can be made.

Where the Group and the Company expect to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present values of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

## Q RECOGNITION OF INTEREST INCOME

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

**Change in accounting policy**

The Group and the Company have changed its accounting policy for interest income recognition upon adoption of FRS 139 on 1 July 2010.

Prior to the adoption of FRS 139, interest income and interest expense on financial instruments are recognised based on contractual interest rate. Where an account is classified as non-performing, interest accrued are 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 statement of financial position. Subsequently, the interest earned on non-performing loans is recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.

The Group and the Company have applied the new policy according to the transitional provision by recognising and measuring the financial instruments as at 1 July 2010 and recording any adjustments to opening retained profits.

The change in this accounting policy does not have material financial impact to the Group's and Company's financial results.

## R 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 financial assets held-for-trading, financial investments available-for-sale, financial investments held-to-maturity and subsidiary companies are recognised when the rights to receive payment is established.

Net profit from financial assets held-for-trading and financial investments available-for-sale are recognised upon disposal of the financial instruments, as the difference between net disposal proceeds and the carrying amount of the financial instruments.

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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## R RECOGNITION OF FEES AND OTHER INCOME (continued)

Management fees charged for management of clients' and unit trust funds is recognised on an accrual basis in accordance with the rates provided for in the prospectuses of unit trust funds and investment mandate with private customers. Other management fees charged for 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.

## S EMPLOYEE BENEFITS

**Short term employee benefits**

The Group and the Company recognise a liability and an expense for bonuses. The Group and the Company recognise a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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.

**Defined contribution plan**

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 profit or loss in the period to which they relate. Once the contributions have been paid, the Group and the Company has no further payment obligations.

**Share-based compensation**

The Company operates an equity-settled, share-based compensation plan for the employees of the Company. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the profit or loss over the vesting periods of the grant with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

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.

## T IMPAIRMENT OF NON-FINANCIAL 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 asset 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, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

## T IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

The impairment loss is charged to the profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

## U IMPAIRMENT OF FINANCIAL ASSETS

### (a) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria the Group and the Company use to determine that there is objective evidence of impairment loss include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group and the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or financial investments held-to-maturity have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

In accordance with the Amendments to FRS 139, MASB has included an additional transitional arrangement for entities in financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance.

The collective assessment impairment allowance of the Group as at the reporting date have been arrrived at based on this transitional arrangement issued by BNM.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are 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.

If in a subsequent period, the amount of impairment losses decreases and the decrease can be related objectively to an event occuring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## U IMPAIRMENT OF FINANCIAL ASSETS (continued)

### (b) Assets carried at available-for-sale

The Group assess at each reporting date whether there is objective evidence that the financial asset is impaired.

For debt securities, the Group uses criteria and measurement of impairment loss applicable for "assets carried at amortised cost" above. If in a subsequent period, the fair value of a debt instrument classified as financial investments available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity instruments classified as financial investments available-for-sale, in addition to the criteria for assets carried at amortised cost above, 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 financial investments available-for-sale has been incurred, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the profit or loss.

**Change in accounting policy**

The Group has changed its accounting policy for impairment of loans and advances upon adoption of FRS 139.

Prior to the adoption of FRS 139, the Group's allowance on impairment losses is in conformity with the minimum requirements of BNM/GP3. The basis of classification of non-performing loans/financing, and the corresponding specific allowance follows the period of default for non-performing loans/financing of 3 months.

The Group has applied the new accounting policy to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or if appropriate, another category of equity, of the current financial year.

Refer to Note 46 for the impact of the change in accounting policy.

## V DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Group under standard repurchase agreements transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

## W CURRENCY TRANSLATIONS

### (a) Functional and presentation currency

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

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 30 June 2011
(continued)

## W CURRENCY TRANSLATIONS (continued)

### (b) 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 profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the financial asset and other changes in the carrying amount of the financial asset. Translation differences related to changes in the amortised cost are recognised in the profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial investments available-for-sale are included in the fair value reserve in equity.

## X SHARE CAPITAL

### (a) Classification

Ordinary shares are classified as equity. Other shares, if any, are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

### (b) Share issue costs

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (c) Dividends

Dividends on ordinary shares is recognised as a liability when the shareholders' right to receive the dividend is established.

## Y 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.

## Z FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans and other banking facilities.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 30 June 2011
(continued)

## Z FINANCIAL GUARANTEE CONTRACTS (continued)

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on negotiated terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premium is recognised. Subsequent to initial recognition, the Group's and the Company's liability under such guarantees are measured at the higher of the initial amount, less amortisation of fee recognised in accordance with FRS 137 "Provisions, Contingent Liabilities and Contingent Assets", and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011

## 1 GENERAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are securities and stock broking, investment banking, futures broking, provision of nominees and custodian services, unit trust management, fund management and sale of unit trusts 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 ("HLFG") and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia. HLFG is listed on Main Market of Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 28 July 2011.

## 2 CASH AND SHORT TERM FUNDS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Cash and balances with banks and other financial institutions | 57,337 | 322,421 | 1,357 | 230 |
| Money at call and deposit placements maturing within one month | 829,925 | 400,224 | 8,800 | - |
| | 887,262 | 722,645 | 10,157 | 230 |

Included in cash and short term funds of the Group are accounts in trust for clients' and dealers' representatives amounting to RM448,818,000 (2010: RM207,203,000).

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

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Licensed banks | 60,125 | 45,000 |
| Other financial institution | - | 70 |
| | 60,125 | 45,070 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 4 FINANCIAL ASSETS HELD-FOR-TRADING

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 | 2011<br>RM'000 | 2010<br>RM'000 |
| **Money market instruments** | | | | |
| Negotiable instruments of deposits | 20,143 | 45,003 | - | - |
| Bankers' acceptances | 212,418 | - | - | - |
| Bank Negara Malaysia Bills | - | 188,748 | - | - |
| | 232,561 | 233,751 | - | - |
| **Quoted securities** | | | | |
| In Malaysia: | | | | |
| Shares | 52,463 | 7,117 | - | - |
| Unit trust investment | 7,401 | 372 | 477 | 372 |
| Outside Malaysia: | | | | |
| Foreign currency bonds | 98,036 | - | - | - |
| | 157,900 | 7,489 | 477 | 372 |
| **Unquoted securities** | | | | |
| Private and Islamic debt securities | 40,285 | 190,543 | - | - |
| | 430,746 | 431,783 | 477 | 372 |

## 5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

| | The Group | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| **Money market instruments** | | |
| Cagamas bonds | 5,140 | - |
| **Quoted securities** | | |
| Outside Malaysia: | | |
| Foreign currency bonds | 10,902 | - |
| **Unquoted securities** | | |
| Shares | 2,445 | 2,445 |
| Private and Islamic debt securities | 56,395 | - |
| | 74,882 | 2,445 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

| | The Group | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| **Money market instruments** | | |
| Negotiable instruments of deposits | - | 10,000 |
| Cagamas bonds | 10,319 | - |
| Malaysian Government Investment Issues | 5,153 | - |
| | 15,472 | 10,000 |
| **Quoted securities** | | |
| Outside Malaysia: | | |
| Foreign currency bonds | 76,710 | - |
| **Unquoted securities** | | |
| Private and Islamic debt securities | 20,465 | - |
| | 112,647 | 10,000 |

## 7 LOANS AND ADVANCES

| | The Group | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| Term loan financing | 15,022 | 47,559 |
| Share margin financing | 76,819 | 46,647 |
| Revolving credit | 22,457 | 28,204 |
| Gross loans and advances | 114,298 | 122,410 |
| Less : | | |
| Allowance for losses on loans and advances | | |
| - individual assessment allowance | (4,679) | - |
| - collective assessment allowance | (1,644) | - |
| - specific allowance | - | (2,688) |
| - general allowance | - | (1,796) |
| Total net loans and advances | 107,975 | 117,926 |

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

| | The Group | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| Maturity within one year | 114,298 | 122,410 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 7 LOANS AND ADVANCES (continued)

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

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Domestic business enterprises | | |
| - Small and medium enterprises | 8,807 | 2,007 |
| - Others | 35,568 | 73,526 |
| Individuals | 68,722 | 45,197 |
| Foreign entities | 1,201 | 1,680 |
| Gross loans and advances | 114,298 | 122,410 |

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

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Fixed rate: | | |
| - Other fixed rate loans | 76,819 | 46,647 |
| Variable rate: | | |
| - Cost plus | 37,479 | 75,763 |
| Gross loans and advances | 114,298 | 122,410 |

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

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Purchase of securities | 89,354 | 61,569 |
| Working capital | 24,944 | 60,841 |
| Gross loans and advances | 114,298 | 122,410 |

(v) Loans and advances analysed by geographical distribution are as follows:

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Malaysia | 114,298 | 122,410 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 7 LOANS AND ADVANCES (continued)

(vi) Movements in the impaired loans and advances are as follows:

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| At 1 July | | | |
| - as previously reported | | 2,688 | 2,521 |
| - effect of adopting FRS 139 | 46 | 10,012 | - |
| At 1 July, as restated | | 12,700 | 2,521 |
| Impaired during the year | | 107 | 178 |
| Amount written back | | (2,347) | (11) |
| Amount written off | | (1,086) | - |
| At 30 June | | 9,374 | 2,688 |
| Ratio of impaired loans to total loans and advances net of individual assessment allowance | | 8.6% | 2.2% |

(vii) Movements in the allowance for loss on loans and advances are as follows:

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| **Individual assessment allowance** | | | |
| At 1 July | | | |
| - as previously reported | | - | - |
| - effect of adopting FRS 139 | 46 | 6,247 | - |
| At 1 July, as restated | | 6,247 | - |
| Allowance made during the financial year | | 107 | - |
| Amount written back | | (589) | - |
| Amount written off | | (1,086) | - |
| At 30 June | | 4,679 | - |
| **Collective assessment allowance** | | | |
| At 1 July | | | |
| - as previously reported | | - | - |
| - effect of adopting FRS 139 | 46 | 1,743 | - |
| At 1 July, as restated | | 1,743 | - |
| Allowance written back | | (99) | - |
| At 30 June | | 1,644 | - |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 7 LOANS AND ADVANCES (continued)

(vii) Movements in the allowance for loss on loans and advances are as follows: (continued)

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| **Specific allowance** | | | |
| At 1 July | | | |
| - as previously reported | | 2,688 | 2,521 |
| - effect of adopting FRS 139 | 46 | (2,688) | - |
| At 1 July, as restated | | - | 2,521 |
| Allowance made during the financial year | | - | 178 |
| Amount written back | | - | (11) |
| At 30 June | | - | 2,688 |
| **General allowance** | | | |
| At 1 July | | | |
| - as previously reported | | 1,796 | 1,254 |
| - effect of adopting FRS 139 | 46 | (1,796) | - |
| At 1 July, as restated | | - | 1,254 |
| Allowance made during the financial year | | - | 542 |
| At 30 June | | - | 1,796 |

(viii) Impaired loans and advances analysed by their economic purposes are as follows:

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Purchase of securities | 1,120 | 2,688 |
| Working capital | 8,254 | - |
| | 9,374 | 2,688 |

(ix) Impaired loans and advances analysed by geographical distribution are as follows:

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Malaysia | 9,374 | 2,688 |

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

## 8 CLIENTS' AND BROKERS' BALANCES

Clients' and brokers' 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 | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Performing accounts | 169,525 | 88,037 |
| Impaired accounts | 12,589 | 37,813 |
| | 182,114 | 125,850 |
| Less: Allowance for bad and doubtful debts | | |
| - individual assessment allowance | (12,381) | - |
| - specific allowance | - | (37,043) |
| - general allowance | - | (9) |
| | 169,733 | 88,798 |

Movements of impaired accounts are as follows:

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| At 1 July | 37,813 | 73,459 |
| Impaired during the year | (442) | 1,157 |
| Amount written off | (24,782) | (36,803) |
| At 30 June | 12,589 | 37,813 |

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

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| **Individual assessment allowance** | | | |
| At 1 July | | | |
| - as previously stated | | - | - |
| - effect of adopting FRS 139 | 46 | 37,043 | - |
| At 1 July, as restated | | 37,043 | - |
| Allowance made during the financial year | | 1,562 | - |
| Allowance written back during the financial year | | (1,442) | - |
| Amount written off | | (24,782) | - |
| At 30 June | | 12,381 | - |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

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

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

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| **Specific allowance** | | | |
| At 1 July | | | |
| - as previously stated | | 37,043 | 73,432 |
| - effect of adopting FRS 139 | 46 | (37,043) | - |
| At 1 July, as restated | | - | 73,432 |
| Allowance made during the financial year | | - | 831 |
| Allowance written back in respect of recoveries | | - | (417) |
| Amount written off | | - | (36,803) |
| At 30 June | | - | 37,043 |
| **General allowance** | | | |
| At 1 July | | 9 | 50 |
| Allowance written back during the financial year | | (9) | (41) |
| At 30 June | | - | 9 |

## 9 OTHER ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Amount due from subsidiary companies (a) | - | - | 105 | 2,864 |
| Deposits and prepayments | 4,971 | 4,913 | 5 | 5 |
| Other receivables (b) | 63,275 | 11,958 | - | - |
| Manager's stocks and consumables | 389 | 351 | - | - |
| | 68,635 | 17,222 | 110 | 2,869 |

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

| | The Company | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Advances (unsecured) | 168,006 | 170,765 |
| Less: Allowance for impairment loss | (167,901) | (167,901) |
| | 105 | 2,864 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 9 OTHER ASSETS (continued)

(b) Included in other receivables of the Group are as follows:

(i) Prepayment for a discounted foreign currency bond of RM30,108,000 (2010: Nil).

(ii) A balance of RM10,876,000 (2010: Nil) which arising from a warehousing facility.

## 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 26(2)(c) of the Central Bank of Malaysia Act 2009, the amount of which is determined at set percentages of total eligible liabilities.

## 11 INVESTMENT IN SUBSIDIARY COMPANIES

| | The Company | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| **Subsidiary companies:** | | |
| Unquoted shares at cost | 273,266 | 275,266 |
| Less: Accumulated impairment losses | (5,077) | (5,077) |
| | 268,189 | 270,189 |

Details of the subsidiaries are as follows:

| Name of company | Country of incorporation | Effective equity interest | | Principal activities |
|---|---|---|---|---|
| | | 2011<br>% | 2010<br>% | |
| Hong Leong Investment Bank Berhad and its subsidiaries | Malaysia | 100 | 100 | Securities and stock broking, investment banking and futures broking |
| - HLG Nominee (Tempatan) Sdn Bhd | Malaysia | 100 | 100 | Nominee and custodian services for Malaysian clients |
| - HLG Nominee (Asing) Sdn Bhd | Malaysia | 100 | 100 | Nominee and custodian services 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 |

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

## 11 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

| Name of company | Country of incorporation | Effective equity interest | | Principal activities |
|---|---|---|---|---|
| | | 2011 % | 2010 % | |
| - RC Research Sdn Bhd | Malaysia | 100 | 100 | Dormant |
| HLG Asset Management Sdn Bhd | Malaysia | 100 | 100 | In member's voluntary liquidation |
| HLG Capital Markets Sdn Bhd and its subsidiary | Malaysia | 100 | 100 | Investment holding |
| - HLG Principal Investments (L) Limited | Labuan | 100 | 100 | Dormant |
| HLG Securities Sdn Bhd | Malaysia | 100 | 100 | Investment holding |
| HLG Futures Sdn Bhd | Malaysia | 100 | 100 | Dormant |
| Hong Leong Asset Management Bhd and its subsidiary | Malaysia | 100 | 100 | Unit trust management, fund management and sale of unit trusts |
| - HL Asset Management Pte Ltd [1] | Singapore | 100 | - | Dormant |
| Unincorporated trust for ESOS [2] | Malaysia | - | - | Special purpose vehicle for ESOS purpose |

[1] The subsidiary was incorporated on 21 June 2011. Refer to Note 44 (c) for details
[2] Deemed subsidiary pursuant to IC 112 - Consolidation : Special Purpose Entities

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 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 statement of financial position:

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| Deferred tax assets | (a) | 43,214 | 53,232 |
| Deferred tax liabilities | (b) | (903) | (194) |
| | | 42,311 | 53,038 |

| | | The Group | |
|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 |
| At 1 July | | | |
| - as previously stated | | 53,038 | 58,455 |
| - effect of adopting FRS 139 | 46 | 876 | - |
| At 1 July, as restated | | 53,914 | 58,455 |
| Transfer from profit or loss (Note 31) | | (11,585) | (5,417) |
| Transfer from equity | | (18) | - |
| At 30 June | | 42,311 | 53,038 |
| Deferred tax assets | | | |
| - settled more than 12 months | | 24,745 | 39,550 |
| - settled within 12 months | | 18,469 | 13,682 |
| | | 43,214 | 53,232 |
| Deferred tax liabilities | | | |
| - settled more than 12 months | | (544) | (31) |
| - settled within 12 months | | (359) | (163) |
| | | (903) | (194) |
| | | 42,311 | 53,038 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 12 DEFERRED TAXATION (continued)

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

### (a) Deferred Tax Assets

| The Group | Note | Collective assessment allowance RM'000 | Unabsorbed tax losses RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At 1 July 2010 | | | | | |
| - as previously stated | | 451 | 51,636 | 1,145 | 53,232 |
| - effect of adopting FRS 139 | 46 | (13) | 889 | - | 876 |
| At 1 July 2010, as restated | | 438 | 52,525 | 1,145 | 54,108 |
| (Charged)/credited to profit or loss | | (27) | (13,480) | 2,613 | (10,894) |
| At 30 June 2011 | | 411 | 39,045 | 3,758 | 43,214 |
| At 1 July 2009 | | 327 | 57,231 | 1,547 | 59,105 |
| Credited/(charged) to profit or loss | | 124 | (5,595) | (402) | (5,873) |
| At 30 June 2010 | | 451 | 51,636 | 1,145 | 53,232 |

### (b) Deferred Tax Liabilities

| The Group | Property and equipment RM'000 | Financial investments available-for-sale RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 July 2010 | 194 | - | 194 |
| Charged to profit or loss | 691 | - | 691 |
| Charged to equity | - | 18 | 18 |
| At 30 June 2011 | 885 | 18 | 903 |
| At 1 July 2009 | 650 | - | 650 |
| Credited to profit or loss | (456) | - | (456) |
| At 30 June 2010 | 194 | - | 194 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 13 PROPERTY AND EQUIPMENT

| The Group 2011 | Note | Leasehold land more than 50 years RM'000 | Leasehold building RM'000 | Office and computer equipment RM'000 | Furniture and fittings RM'000 | Renovations RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 July 2010 | | | | | | | | |
| - as previously reported | | - | 871 | 16,829 | 2,296 | 7,865 | 1,096 | 28,957 |
| - effect of adopting improvement to FRS 117 | 46 | 1,133 | - | - | - | - | - | 1,133 |
| At 1 July 2010, as restated | | 1,133 | 871 | 16,829 | 2,296 | 7,865 | 1,096 | 30,090 |
| Additions | | - | - | 1,165 | 165 | 2,247 | 255 | 3,832 |
| Disposals | | - | - | (6) | - | - | (146) | (152) |
| At 30 June 2011 | | 1,133 | 871 | 17,988 | 2,461 | 10,112 | 1,205 | 33,770 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 July 2010 | | | | | | | | |
| - as previously reported | | - | 28 | 14,694 | 1,556 | 6,387 | 489 | 23,154 |
| - effect of adopting improvement to FRS 117 | 46 | 2 | - | - | - | - | - | 2 |
| At 1 July 2010, as restated | | 2 | 28 | 14,694 | 1,556 | 6,387 | 489 | 23,156 |
| Charge for the financial year | | 1 | 18 | 1,187 | 203 | 815 | 188 | 2,412 |
| Disposals | | - | - | (6) | - | - | (146) | (152) |
| At 30 June 2011 | | 3 | 46 | 15,875 | 1,759 | 7,202 | 531 | 25,416 |
| **Net book value** | | | | | | | | |
| At 30 June 2011 | | 1,130 | 825 | 2,113 | 702 | 2,910 | 674 | 8,354 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 13 PROPERTY AND EQUIPMENT (continued)

| The Group 2010 | Note | Leasehold land more than 50 years RM'000 | Leasehold building RM'000 | Office and computer equipment RM'000 | Furniture and fittings RM'000 | Renovations RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 July 2009 | | | | | | | | |
| - as previously reported | | - | 871 | 15,924 | 1,725 | 6,938 | 1,274 | 26,732 |
| - effect of adopting improvement to FRS 117 | 46 | 1,133 | - | - | - | - | - | 1,133 |
| At 1 July 2009, as restated | | 1,133 | 871 | 15,924 | 1,725 | 6,938 | 1,274 | 27,865 |
| Additions | | - | - | 913 | 572 | 927 | 670 | 3,082 |
| Disposals | | - | - | (8) | (1) | - | (848) | (857) |
| At 30 June 2010 | | 1,133 | 871 | 16,829 | 2,296 | 7,865 | 1,096 | 30,090 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 July 2009 | | | | | | | | |
| - as previously reported | | - | 11 | 13,502 | 1,456 | 6,006 | 1,007 | 21,982 |
| - effect of adopting improvement to FRS 117 | 46 | 1 | - | - | - | - | - | 1 |
| At 1 July 2009, as restated | | 1 | 11 | 13,502 | 1,456 | 6,006 | 1,007 | 21,983 |
| Charge for the financial year | | 1 | 17 | 1,200 | 100 | 381 | 177 | 1,876 |
| Disposals | | - | - | (8) | - | - | (695) | (703) |
| At 30 June 2010 | | 2 | 28 | 14,694 | 1,556 | 6,387 | 489 | 23,156 |
| **Net book value** | | | | | | | | |
| At 30 June 2010 | | 1,131 | 843 | 2,135 | 740 | 1,478 | 607 | 6,934 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 14 GOODWILL

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| **Cost** | | |
| At 1 July/30 June | 33,059 | 33,059 |

**Allocation of Goodwill to Cash-Generating Units**

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

| | The Group | |
|---|---|---|
| CGU | 2011 RM'000 | 2010 RM'000 |
| Investment banking and stock broking | 28,986 | 28,986 |
| Unit trust management | 4,073 | 4,073 |
| | 33,059 | 33,059 |

**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% (2010: 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 14.93% (2010: 9.6%) and reflect specific risks relating to the segment.

For the current year, impairment was not required for goodwill arising from investment banking, stockbroking and unit trust management 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.

## 15 INTANGIBLE ASSETS - COMPUTER SOFTWARE

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| **Cost** | | |
| At 1 July | 11,457 | 10,423 |
| Additions | 590 | 1,034 |
| At 30 June | 12,047 | 11,457 |
| **Amortisation** | | |
| At 1 July | (10,118) | (9,441) |
| Charge of the year | (835) | (677) |
| At 30 June | (10,953) | (10,118) |
| At end of financial year | 1,094 | 1,339 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 16 DEPOSITS FROM CUSTOMERS

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Fixed deposits | 395,243 | 31,218 |
| (i) Maturity structure of fixed deposits is as follows: | | |
| Due within six months | 395,243 | 31,218 |
| (ii) The deposits are sourced from the following customers | | |
| Government and statutory bodies | 205,501 | - |
| Business enterprises | 188,724 | 31,218 |
| Individual | 1,018 | - |
| | 395,243 | 31,218 |

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

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Licensed banks | 211,431 | 61,000 |
| Other financial institutions | 536,568 | 539,990 |
| | 747,999 | 600,990 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 18 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The table below shows the Group's derivative financial instruments as at the reporting date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative assets) and gross negative (derivative liabilities) fair values at the reporting date are analyse below.

| | The Group | | |
|---|---|---|---|
| 2011 | Contract or underlying principal amount RM'000 | Year-end positive fair value RM'000 | Year-end negative fair value RM'000 |
| Interest rate related contracts: | | | |
| - Interest rate swaps | 455,000 | 622 | (1,600) |
| - Futures | 2,013,753 | 515 | (919) |
| Foreign exchange related contracts | | | |
| - Cross currency swaps | 64,471 | 1,192 | (2,247) |
| - Foreign currency spot | 18,119 | 29 | (25) |
| - Foreign currency forwards | 30,198 | - | (301) |
| Equity related contracts: | | | |
| - Futures | 44,675 | - | (67) |
| - Call options | 10,000 | 3,000 | - |
| | 2,636,216 | 5,358 | (5,159) |

| | The Group | | |
|---|---|---|---|
| 2010 | Contract or underlying principal amount RM'000 | Year-end positive fair value RM'000 | Year-end negative fair value RM'000 |
| Interest rate related contracts: | | | |
| - Interest rate swaps | 25,000 | 23 | - |
| - Futures | 3,200,000 | - | (1,194) |
| | 3,225,000 | 23 | (1,194) |

## 19 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances of the Group are clients' trust balances, held in trust for clients of RM235,034,000 (2010: RM178,185,000).

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 20 OTHER LIABILITIES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Amount due to: | | | | | |
| - immediate holding company | (a) | 2 | 2 | 2 | 2 |
| - subsidiary company | (a) | - | - | 80 | - |
| - other related companies | (a) | 1,880 | 1,039 | 27 | 25 |
| Remisiers' trust deposits | | 10,210 | 11,122 | - | - |
| Other payables and accrued liabilities | (b) | 66,858 | 300,330 | 492 | 639 |
| Post employment benefits obligation | | | | | |
| - defined contribution plan | | 517 | 502 | - | - |
| | | 79,467 | 312,995 | 601 | 666 |

(a) The amounts due to the immediate holding company, subsidiary and other related companies, are unsecured, interest free and repayable on demand.

(b) Included in other payables and accrued liabilities of the Group in 2010 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.

## 21 BORROWINGS

| | The Group and The Company | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Revolving credit | 20,075 | 22,000 |

The revolving credit facilities are unsecured. The interest rate of the revolving credit facilities ranges from 3.62% to 4.16% (2010: 2.90% to 3.86%) per annum. The revolving credit facilities are repayable within 12 months.

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 22 SHARE CAPITAL

| | The Group and The Company | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| **Authorised:** | | |
| Ordinary shares of RM1.00 each | | |
| At beginning of financial year | 500,000 | 200,000 |
| Increased during the year | - | 300,000 |
| At end of financial year | 500,000 | 500,000 |
| **Issued and fully paid:** | | |
| Ordinary shares of RM1.00 each | | |
| At beginning of financial year | 246,896 | 123,448 |
| Issued during the year | - | 123,448 |
| At end of financial year | 246,896 | 246,896 |

## 23 RESERVES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Retained profits | 77,513 | 58,796 | 25,870 | 19,613 |
| Statutory reserve | 28,222 | 11,044 | - | - |
| Share option reserve | 288 | - | - | - |
| Fair value reserve | 56 | - | - | - |
| General reserve | 543 | 543 | - | - |
| | 106,622 | 70,383 | 25,870 | 19,613 |

**(i) Retained Profits**

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 (2010: RM266,650,029). In addition, the Company has tax exempt income of approximately RM465,953 (2010: RM465,953) available for future distribution of tax exempt dividends.

**(ii) Statutory Reserve**

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.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 24 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.

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 statement of financial position. As at 30 June 2011, the number of shares held by the appointed trustee was 12,287,200 shares (2010: 12,287,200) at a carrying value of RM13,203,461 (2010: RM13,203,461) inclusive of transaction costs.

## 25 INTEREST INCOME

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Loans and advances | 6,058 | 6,211 | - | - |
| Money at call and deposit placements with financial institutions | 15,677 | 4,061 | 70 | 114 |
| Financial investments available-for-sale | 5,788 | 2,328 | - | - |
| Financial investments held-to-maturity | 2,203 | 292 | - | - |
| Others | 805 | 618 | 25 | 91 |
| | 30,531 | 13,510 | 95 | 205 |
| Financial assets held-for-trading | 30,061 | 2,603 | - | - |
| Accretion of discount less amortisation of premium | (467) | (115) | - | - |
| | 60,125 | 15,998 | 95 | 205 |
| Of which: | | | | |
| Interest income earned on impaired loans and advances | 374 | - | - | - |

## 26 INTEREST EXPENSE

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Deposits and placements of banks and other financial institutions | 13,320 | 1,151 | - | - |
| Deposits from customers | 26,286 | 2,796 | - | - |
| Borrowings | 844 | 2,332 | 797 | 2,182 |
| | 40,450 | 6,279 | 797 | 2,182 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 27 NON-INTEREST INCOME

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Fee income** | | | | |
| Brokerage income | 46,643 | 42,264 | - | - |
| Unit trust fee income | 20,194 | 19,406 | - | - |
| Commissions from future contracts | 927 | 919 | - | - |
| Fees on loans and advances | 2,328 | 548 | - | - |
| Arranger fees | 15,044 | 5,110 | - | - |
| Placement fees | 9,614 | - | - | - |
| Corporate advisory fees | 5,826 | 1,233 | - | - |
| Underwriting commissions | 1,838 | - | - | - |
| Other fee income | 4,064 | 2,589 | - | - |
| | 106,478 | 72,069 | - | - |
| **Net income from securities** | | | | |
| Net realised gain arising from sale of: | | | | |
| - Financial assets held-for-trading | 2,995 | 897 | - | - |
| - Financial investments available-for-sale | 690 | - | - | - |
| Net unrealised (loss)/gain on revaluation of: | | | | |
| - Financial assets held-for-trading | (913) | 2,655 | 105 | 30 |
| - Derivatives | 1,363 | (1,177) | - | - |
| Dividend income from: | | | | |
| - Financial assets held-for-trading | 705 | 598 | - | - |
| - Financial investments available-for-sale | 92 | 37 | - | - |
| - Subsidiary companies | - | - | 1,700 | 4,122 |
| | 4,932 | 3,010 | 1,805 | 4,152 |
| **Other income** | | | | |
| Gain on disposal of property and equipment | 27 | 321 | - | - |
| (Loss)/gain on liquidation of a subsidiary | (156) | - | 6,050 | - |
| Foreign exchange loss | (3,548) | - | - | - |
| Other non-operating income | 55 | 340 | 9 | 10 |
| | (3,622) | 661 | 6,059 | 10 |
| | 107,788 | 75,740 | 7,864 | 4,162 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 28 OVERHEAD EXPENSES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Personnel costs | 43,288 | 36,222 | 192 | 1,423 |
| Establishment costs | 16,460 | 14,320 | 31 | 36 |
| Marketing expenses | 2,879 | 2,217 | 8 | 24 |
| Administration and general expenses | 15,078 | 11,213 | 662 | 1,153 |
| | 77,705 | 63,972 | 893 | 2,636 |

(i) Personnel costs comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Salaries, bonus and allowances | 36,912 | 29,209 | 127 | 1,033 |
| Option charge arising from ESOS | 288 | - | - | - |
| Other employees benefits | 6,088 | 7,013 | 65 | 390 |
| | 43,288 | 36,222 | 192 | 1,423 |

(ii) Establishment costs comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Depreciation of property and equipment | 2,412 | 1,876 | - | - |
| Amortisation of intangible assets-computer software | 835 | 677 | - | - |
| Rental of premises | 5,132 | 4,620 | 5 | 10 |
| Information technology expenses | 4,920 | 5,010 | 19 | - |
| Others | 3,161 | 2,137 | 7 | 26 |
| | 16,460 | 14,320 | 31 | 36 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 28 OVERHEAD EXPENSES (continued)

(iii) Marketing expenses comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Advertisement and publicity | 1,192 | 1,109 | - | 6 |
| Travelling and accomodation | 509 | 442 | 7 | 15 |
| Others | 1,178 | 666 | 1 | 3 |
| | 2,879 | 2,217 | 8 | 24 |

(iv) Administration and general expenses comprise the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Communication expenses | 1,156 | 2,289 | 2 | 2 |
| Stationery and printing expenses | 730 | 562 | 5 | 7 |
| Management fee | 2,426 | 1,566 | - | - |
| Professional fees | 5,370 | 3,165 | 14 | 182 |
| Stamp, postage and courier | 572 | 432 | 2 | 20 |
| Auditors' remuneration: | | | | |
| - statutory audit | 240 | 207 | 46 | 24 |
| - tax compliance fees | 34 | - | - | - |
| - current year | 12 | 12 | - | - |
| - underprovision in prior year | - | 10 | - | - |
| - other fees | 38 | 5 | 5 | 5 |
| Others | 4,534 | 2,965 | 588 | 913 |
| | 15,078 | 11,213 | 662 | 1,153 |

Included in the overhead expenses of the Group and the Company are Directors' remuneration amounting to RM3,900,000 (2010: RM5,611,000) and RM415,000 (2010: RM428,000) respectively.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

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

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Allowance for losses on loans and advances: | | |
| (a) Specific allowance | | |
| - made during the financial year | - | 178 |
| - written back | - | (11) |
| (b) General allowance | | |
| - made during the financial year | - | 542 |
| (c) Individual assessment allowance | | |
| - made during the financial year | 107 | - |
| - written back during the year | (589) | - |
| (d) Collective assessment allowance | | |
| - written back during the year | (99) | - |
| | (581) | 709 |
| Bad debts on loans and advances | | |
| - Recovered | (278) | (41) |
| Allowance for losses on clients' and brokers' balances | | |
| (a) Specific allowance | | |
| - made during the financial year | - | 831 |
| - written back | - | (417) |
| (b) General allowance | | |
| - written back | (9) | (41) |
| (c) Individual assessment allowance | | |
| - made during the financial year | 1,562 | - |
| - written back | (1,442) | - |
| | 111 | 373 |
| | (748) | 1,041 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 30 DIRECTORS' REMUNERATION

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Directors of the Company** | | | | |
| Non-Executive Directors: | | | | |
| Fee: | | | | |
| YBhg Tan Sri Quek Leng Chan[1] | 67 | 67 | 67 | 67 |
| YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman | 163 | 176 | 83 | 83 |
| YBhg Dato' Mohamed Nazim bin Abdul Razak | 81 | 70 | 81 | 70 |
| YBhg Dato' Ahmad Fuaad bin Mohd Dahalan | 81 | 80 | 81 | 80 |
| Mr Choong Yee How[1] | 143 | 107 | 53 | 51 |
| Mr Quek Kon Sean | 50 | 50 | 50 | 50 |
| Encik Omar bin Zolkifli (resigned on 29.10.2009) | - | 33 | - | 27 |
| | 585 | 583 | 415 | 428 |

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

Note:
[1] These fees have been assigned in favour of the company where the Director is employed.

## 31 TAXATION

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Malaysian income tax: | | | | |
| - current year's charge | 1,368 | 1,644 | 69 | - |
| - overprovision in prior years | (972) | (869) | (57) | - |
| | 396 | 775 | 12 | - |
| Deferred tax (Note 12): | | | | |
| - relating to origination and reversal of temporary differences | 11,812 | 5,417 | - | - |
| - overprovision in prior years | (227) | - | - | - |
| | 11,585 | 5,417 | - | - |
| | 11,981 | 6,192 | 12 | - |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 31 TAXATION (continued)

A reconciliation of income tax expense applicable to profit/(loss) 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 | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Profit/(loss) before taxation | 50,506 | 20,446 | 6,269 | (451) |
| Tax calculated at a rate of 25% (2010: 25%) | 12,627 | 5,112 | 1,567 | (113) |
| Tax effects of: | | | | |
| - Income not subject to tax | (164) | (15) | (1,538) | (1,039) |
| - Expenses not deductible for tax purposes | 1,130 | 2,079 | 40 | 1,152 |
| - Tax saving from Islamic tax incentive | - | (143) | - | - |
| - Deferred tax assets not recognised during the year | (413) | - | - | - |
| - Other temporary differences | - | 28 | - | - |
| Overprovision in prior years | (1,199) | (869) | (57) | - |
| Taxation | 11,981 | 6,192 | 12 | - |

**Unrecognised deferred tax assets**

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| **Tax losses** | | |
| Tax losses for which the related tax credit has not been recognised in the financial statements | 23,127 | 23,107 |
| **Capital allowances** | | |
| Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements | 391 | 2,065 |

Deferred tax assets of certain subsidiaries have not been recognised in respect of these items as it is not probable that taxable profits will be available against which the unused tax losses and capital allowances can be utilised.

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 32 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 | |
|---|---|---|
| | 2011 | 2010 |
| **(a) Basic earnings per share** | | |
| Net profit attributable to equity holders of the Company (RM'000) | 38,525 | 14,254 |
| Weighted average number of ordinary shares in issue ('000) | 234,609 | 235,975 |
| Basic earnings per share (sen) | 16.4 | 6.0 |

**(b) Diluted earnings per share**

There is no diluted earnings per share as the Group has no category of dilutive potential ordinary shares outstanding as at 30 June 2011 and 30 June 2010.

## 33 DIVIDEND

No dividend has been paid 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 2011.

## 34 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.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 34 COMMITMENT AND CONTINGENCIES (continued)

### (a) Investment banking subsidiary company related commitments and contingencies (continued)

The commitments and contingencies constitute are as follows:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| The Group | 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 |
| **Commitments and contingent liabilities** | | | | | | |
| Obligations under underwriting agreement | 20,238 | 10,119 | 10,119 | - | - | - |
| Any commitment that are unconditionally cancelled at any time by the Group without prior notice | | | | | | |
| - maturity less than 1 year | 302,249 | - | - | 267,940 | - | - |
| **Derivative Financial Instruments** | | | | | | |
| Interest rate related contracts: | | | | | | |
| - One year or less | 527,573 | - | - | 680,000 | - | - |
| - Over one year to five years | 1,817,370 | 18,572 | 3,714 | 2,545,000 | 1,021 | 204 |
| - Over five years | 123,810 | - | - | - | - | - |
| Foreign exchange related contracts | | | | | | |
| - One year or less | 112,788 | 5,750 | 1,512 | - | - | - |
| Equity related contracts: | | | | | | |
| - One year or less | 44,675 | - | - | - | - | - |
| - Over one year to five years | 10,000 | - | - | - | - | - |
| | 2,958,703 | 34,441 | 15,345 | 3,492,940 | 1,021 | 204 |

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

Hong Leong Asset Management 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 RM1,000,000, 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 RM1,000,000 as at 30 June 2011.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 35 CAPITAL COMMITMENTS

| | The Group | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| Property and equipment | | |
| - Approved and contracted but not provided for | 794 | 964 |
| - Approved but not contracted for | 269 | 115 |
| | 1,063 | 1,079 |

## 36 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 | |
|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 |
| Less than one year | 4,610 | 4,380 |
| More than one year but less than five years | 3,649 | 6,293 |
| More than five years | 1 | - |

## 37 CAPITAL MANAGEMENT

The Group's capital is in relation to its risk profile and strategic objectives set by the Board to meet shareholder' requirements and expectations. The Group's Capital Management framework for maintaining appropriate capital levels is in line with the Bank Negara Malaysia's Revised Risk Weighted Capital Adequacy Framework.

## 38 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 2011 met the minimum requirement.

The capital ratios of HLIB for year 2011 are computed based on BNM's revised Risk Weighted Capital Adequacy Framework Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 38 CAPITAL ADEQUACY (continued)

(i) The capital adequacy ratios of HLIB are as follows:

| | HLIB | |
|---|---|---|
| | 2011 | 2010 |
| **Before deducting proposed dividends:** | | |
| Core capital ratio | 38.2% | 33.1% |
| Risk-weighted capital ratio | 38.6% | 33.5% |
| **After deducting proposed dividends:** | | |
| Core capital ratio | 35.7% | 33.1% |
| Risk-weighted capital ratio | 36.1% | 33.5% |

(ii) The components of Tier 1 and Tier 2 Capital of HLIB is as follows:

| | 2011 | 2010 |
|---|---|---|
| | RM'000 | RM'000 |
| **Tier-1 capital** | | |
| Paid-up share capital | 265,535 | 265,535 |
| Other reserves [(1)] | 53,414 | 21,688 |
| Less: Goodwill | (30,236) | (30,236) |
| Less: Deferred tax assets | (41,716) | (52,597) |
| Total Tier-1 capital | 246,997 | 204,390 |
| **Tier-2 capital** | | |
| Redeemable preference shares ("RPS") | 1,631 | 1,631 |
| Collective assessment allowance for losses on loans and advances [(2)] | 1,574 | - |
| General allowance for bad and doubtful debts | - | 1,805 |
| Total Tier-2 capital | 3,205 | 3,436 |
| Eligible Tier-2 capital | 3,205 | 3,436 |
| Total Tier-1 and Tier-2 capital | 250,202 | 207,826 |
| Less: Investments in subsidiaries | (588) | (588) |
| Total capital base | 249,614 | 207,238 |

Note:

(1) Fair value reserve has been excluded from HLIB's capital base.
(2) Excludes collective assessment allowance attributable to loans and advances classified as impaired.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 38 CAPITAL ADEQUACY (continued)

(iii) Breakdown of risk-weighted assets of HLIB in the various risk weightes:

| | 2011<br>RM'000 | 2010<br>RM'000 |
|---|---|---|
| Credit risk | 286,833 | 356,198 |
| Market risk | 237,494 | 177,473 |
| Operational risk | 122,594 | 84,507 |
| | 646,921 | 618,178 |

## 39 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 |
| 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 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (b) Related parties transactions

Transactions with related parties are as follows:

| The Group 2011 | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|
| **Income** | | | |
| Brokerage income | - | 1,504 | 80 |
| Corporate advisory fee | 100 | 1,074 | - |
| Arranger fee | - | 6,058 | - |
| Interest on interbank placements | - | 1,231 | - |
| | 100 | 9,867 | 80 |
| **Expenses** | | | |
| Rental | - | 3,913 | - |
| Interest on interbank borrowings | - | 42 | - |
| Management fee | 418 | 2,115 | - |
| Commission | - | 4,637 | - |
| Other | - | 782 | - |
| | 418 | 11,489 | - |
| **Amounts due from:** | | | |
| Current account | - | 33,191 | - |
| Money at call and deposit placements | - | 334,297 | - |
| Clients' and brokers' balances | - | 17,918 | - |
| Others | - | 181 | - |
| | - | 385,587 | - |
| **Amounts due to:** | | | |
| Deposits from customers | - | 30,534 | - |
| Clients' and brokers' balances | - | 18,174 | 63,914 |
| Others | 2 | 1,880 | - |
| | 2 | 50,588 | 63,914 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

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

| The Company 2011 | Parent company RM'000 | Subsidiaries RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|---|
| **Income** | | | | |
| Interest on interbank placements | - | - | 95 | - |
| Dividend income | - | 1,700 | - | - |
| Gain on liquidation of a subsidiary | - | 6,050 | - | - |
| Others | - | 10 | - | - |
| | - | 7,760 | 95 | - |
| **Amounts due from:** | | | | |
| Current account | - | - | 1,357 | - |
| Money at call and deposit placements | - | - | 8,800 | - |
| Others | - | 105 | - | - |
| | - | 105 | 10,157 | - |
| **Amounts due to:** | | | | |
| Others | 2 | 80 | 27 | - |
| | 2 | 80 | 27 | - |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

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

Transactions with related parties are as follows:

| The Group 2010 | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|
| **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 | - |
| **Amounts due from:** | | | |
| Current account | - | 15,058 | - |
| Money at call and deposit placements | - | 202,394 | - |
| Interest receivable on interbank placements | - | 1,791 | - |
| | - | 219,243 | - |
| **Amounts due to:** | | | |
| Interbank placement | - | 5,000 | - |
| Others | 2 | 1,039 | - |
| | 2 | 6,039 | - |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

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

| The Company 2010 | Parent company RM'000 | Subsidiaries RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|---|
| **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 | - |

### (c) Key management personnel

Key management compensation

| | The Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Fees | 810 | 583 |
| Salaries and other short-term employee benefits | 2,760 | 4,490 |
| Defined contribution plan | 330 | 538 |
| | 3,900 | 5,611 |

Included in the above is the Directors' remuneration which is disclosed in Note 30.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 40 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.

## 41 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 negotiated terms. 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 costs incurred during the period to acquire segment assets that are expected to be used for more than one period.

**Business segments**

The Group comprises the following main business segments:

| | | |
|---|---|---|
| Investment banking and stock broking | - | Securities and stock broking and investment banking |
| Futures and options broking | - | Futures and options broking |
| Fund management and unit trust management | - | Unit trust management, fund management and sale of unit trusts |
| Investment holding and others | - | Investment holdings and others |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 41 SEGMENTAL INFORMATION (continued)

| The Group 2011 | 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 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External revenue | 105,022 | 1,428 | 21,301 | (288) | - | 127,463 |
| Inter-segment revenue | - | - | - | 7,760 | (7,760) | - |
| Total revenue | 105,022 | 1,428 | 21,301 | 7,472 | (7,760) | 127,463 |
| Overhead expenses | (59,713) | (1,276) | (15,587) | (1,129) | - | (77,705) |
| Allowances for impairment losses on loans and advances and other losses | 748 | - | - | - | - | 748 |
| **Results** | | | | | | |
| Segment results from operations | 46,057 | 152 | 5,714 | 6,343 | (7,760) | 50,506 |
| Tax expense | | | | | | (11,981) |
| | | | | | | 38,525 |
| **Assets** | | | | | | |
| Segment assets | 2,065,407 | 18,096 | 35,496 | 18,354 | - | 2,137,353 |
| Other corporate assets | | | | | | 42,917 |
| Total assets | | | | | | 2,180,270 |
| **Liabilities** | | | | | | |
| Segment liabilities | 1,789,469 | 18,041 | 13,603 | 18,842 | - | 1,839,955 |
| Total liabilities | | | | | | 1,839,955 |
| **Other information** | | | | | | |
| Capital expenditure | 4,026 | - | 396 | - | - | 4,422 |
| Depreciation of property and equipment | 2,180 | 9 | 223 | - | - | 2,412 |
| Amortisation of intangible assets - computer software | 779 | 2 | 54 | - | - | 835 |
| Writeback of allowance for losses on loans and advances | (581) | - | - | - | - | (581) |
| Bad debts on loans and advances recovered | (278) | - | - | - | - | (278) |
| Allowance for losses on clients' and brokers' balances | 111 | - | - | - | - | 111 |

Note:
1. Total segment revenue comprises of net interest income and non-interest income.
2. Other corporate assets are not directly attributed to the business segments and cannot be allocated on a reasonable basis.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 41 SEGMENTAL INFORMATION (continued)

| The Group 2010 | 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 |
|---|---|---|---|---|---|---|
| **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 impairment losses on loans and advances 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 |
| **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 |
| 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 |

Note:
1. Total segment revenue comprises of net interest income and non-interest income.
2. Other corporate assets and liabilities are not directly attributed to the business segments and cannot be allocated on a reasonable basis.

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 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (a) 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, credit limits and monitoring procedures. Credit risk includes settlement risk, default risk and concentration risk. Exposure to credit risk arises mainly from financing, underwriting, securities and derivative exposures of the Group.

The Group has set out Board approved policies and guidelines for the management of credit risk. To oversee all credit related matters of the Group, the Management Credit and Underwriting Committee ("MCUC") was setup in 2011 in addition to an independent Credit Department.

The Board has delegated appropriate Delegation of Authority to the MCUC and senior management for the approval of credit facilities. Credit limit setting for Treasury activities are endorsed by the MCUC and approved by the Board at least annually. Adherence to established credit policies, guidelines and limits is monitored daily by the Credit Control Department, Credit Department and the Risk Management Department.

***Market Risk***

Market risk is the risk of loss arising from adverse fluctuation in market prices, such as interest rates, equity prices and foreign currency. The Group monitors all such exposures arising from trading activities of the treasury and stockbroking business activities on a daily basis and management is alerted on the financial impact of these risks. To mitigate market risk, the Group also uses derivative financial instruments.

The Group has in place a set of policies, guidelines, measurement methodologies and control limits which includes Value-at-Risk ("VaR"), Present-Value-Basis-Point ("PVBP"), Management Action Trigger ("MAT"), notional limits and concentration limits to mitigating market risk.

Stress testing is also employed to capture the potential market risk exposures from unexpected market movements. Concerns and significant findings are communicated to the senior management at the Assets and Liabilities Management Committee ("ALMCO") and to the Board.

***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 arises from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Group's policy to ensure that there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

***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 this risk, 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.

The Operational Risk Management ("ORM") Policy is in place to ensure that controls and segregation of duties exists to mitigate operational risks. The Group has taken an initiative to promote operational risk awareness among its staff and an in-house awareness programme was completed in 2011. The Group has begun presenting loss data reports on monthly basis to the senior management and the Board. This will also provide the foundation for mapping and collecting data on loss events and self-assessment models in subsequent phases of the ORM initiatives.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (b) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain constant. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group as at 30 June 2011.

#### *(i) Interest rate sensitivity analysis*

The following table shows the sensitivity of the Group's profit after tax and its equity to an immediate up and down +/-50 basis points ('bps') parallel shift in the interest rate.

| | The Group | | The Company | |
|---|---|---|---|---|
| | Impact on profit after tax RM'000 | Impact on equity RM'000 | Impact on profit after tax RM'000 | Impact on equity RM'000 |
| **2011** | | | | |
| +50 bps | 2,167 | (1,066) | (100) | - |
| -50 bps | (2,167) | 1,066 | 100 | - |

The results above represent financial assets and liabilities that have been prepared on the following basis:

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movements for all short-term interest rate sensitive financial assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movements for the short term interest rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 50 basis point interest rate change impact. For assets and liabilities with non-fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these interest bearing financial assets and liabilities.

Impact on equity represents the changes in fair values of fixed income instruments held in the available-for-sale portfolio arising from the shift in the interest rate.

#### *(ii) Foreign currency sensitivity analysis*

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

| The Group 2011 | Impact on profit after tax RM'000 |
|---|---|
| +5 bps | (15) |
| -5 bps | 15 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (b) Market risk (continued)

***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 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 statement of financial position. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | ← Non-trading book → | | | | | | | |
| | Up to 1 month RM'000 | 1 – 3 months RM'000 | 3 – 12 months RM'000 | 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Assets** | | | | | | | | |
| Cash and short term funds | 829,925 | - | - | - | - | 57,337 | - | 887,262 |
| Reverse repurchase agreements | 86,423 | 73,261 | - | - | - | - | - | 159,684 |
| Deposits and placements with banks and other financial institutions | - | 60,125 | - | - | - | - | - | 60,125 |
| Financial assets held-for-trading | - | - | - | - | - | - | 430,746 | 430,746 |
| Financial investments available-for-sale | - | - | - | 72,437 | - | 2,445 | - | 74,882 |
| Financial investments held-to-maturity | - | - | - | 52,077 | 60,570 | - | - | 112,647 |
| Derivative financial assets | - | - | - | - | - | - | 5,358 | 5,358 |
| Loans and advances | 18,615 | 89,360 | - | - | - | - | - | 107,975 |
| Clients' and brokers' balances | - | - | - | - | - | 169,733 | - | 169,733 |
| Other assets* | - | - | - | - | - | 171,858 | - | 171,858 |
| **Total assets** | 934,963 | 222,746 | - | 124,514 | 60,570 | 401,373 | 436,104 | 2,180,270 |

* Include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets, property and equipment, goodwill and intangible assets.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (b) Market risk (continued)

***Interest rate risk*** (continued)

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Non-trading book | | | | | | | |
| | Up to 1 month RM'000 | 1 – 3 months RM'000 | 3 – 12 months RM'000 | 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 391,005 | 4,238 | - | - | - | - | - | 395,243 |
| Deposits and placements of banks and other financial institutions | 746,079 | - | 1,920 | - | - | - | - | 747,999 |
| Derivative financial liabilities | - | - | - | - | - | - | 5,159 | 5,159 |
| Clients' and brokers' balances | - | - | - | - | - | 591,595 | - | 591,595 |
| Other liabilities and tax liabilities | - | - | - | - | - | 79,884 | - | 79,884 |
| Borrowings | 20,075 | - | - | - | - | - | - | 20,075 |
| **Total liabilities** | 1,157,159 | 4,238 | 1,920 | - | - | 671,479 | 5,159 | 1,839,955 |
| **Total equity** | - | - | - | - | - | 340,315 | - | 340,315 |
| **Total liabilities and equity** | 1,157,159 | 4,238 | 1,920 | - | - | 1,011,794 | 5,159 | 2,180,270 |
| On-balance sheet interest sensitivity gap | (222,196) | 218,508 | (1,920) | 124,514 | 60,570 | | | |
| Off-balance sheet interest sensitivity gap | - | - | - | - | - | | | |
| **Total interest rate sensitivity gap** | (222,196) | 218,508 | (1,920) | 124,514 | 60,570 | | | |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (b) Market risk (continued)

***Interest rate risk*** (continued)

| The Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2011 | | | | | | | | |
| | Non-trading book | | | | | | | |
| | Up to 1 month RM'000 | 1 – 3 months RM'000 | 3 – 12 months RM'000 | 1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 |
| **Assets** | | | | | | | | |
| Cash and short term funds | - | - | - | - | - | 10,157 | - | 10,157 |
| Securities held-for-trading | - | - | - | - | - | - | 477 | 477 |
| Other receivables | - | - | - | - | - | 110 | - | 110 |
| Tax recoverable | - | - | - | - | - | 1,306 | - | 1,306 |
| Investment in subsidiary companies | - | - | - | - | - | 268,189 | - | 268,189 |
| **Total assets** | - | - | - | - | - | 279,762 | 477 | 280,239 |
| **Liabilities** | | | | | | | | |
| Other liabilities | - | - | - | - | - | 601 | - | 601 |
| Borrowings | 20,075 | - | - | - | - | - | - | 20,075 |
| **Total liabilities** | 20,075 | - | - | - | - | 601 | - | 20,676 |
| **Total equity** | - | - | - | - | - | 259,563 | - | 259,563 |
| **Total liabilities and equity** | 20,075 | - | - | - | - | 260,164 | - | 280,239 |
| On-balance sheet interest sensitivity gap | (20,075) | - | - | - | - | | | |
| Off-balance sheet interest sensitivity gap | - | - | - | - | - | | | |
| **Total interest rate sensitivity gap** | (20,075) | - | - | - | - | | | |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (c) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Group and the Company to meet its contractual or regulatory obligations when they fall due without incurring substantial losses. Liquidity obligations arise from wtihdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Group and the Company seek the project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM/GP8:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Up to 1 week RM'000 | 1 week to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | Over 1 year RM'000 | No specific maturity RM'000 | Total RM'000 |
| **Assets** | | | | | | | | |
| Cash and short-term funds | 707,227 | 180,035 | - | - | - | - | - | 887,262 |
| Reverse repurchase agreements | - | 86,423 | 73,261 | - | - | - | - | 159,684 |
| Deposits and placements with banks and other financial institutions | - | - | 60,125 | - | - | - | - | 60,125 |
| Financial assets held-for-trading | 19,262 | 134,903 | 78,477 | 20,071 | 5,036 | 113,133 | 59,864 | 430,746 |
| Financial investments available-for-sale | - | - | - | - | 10,099 | 62,338 | 2,445 | 74,882 |
| Financial investments held-to-maturity | - | - | - | - | - | 112,647 | - | 112,647 |
| Derivative financial assets | 161 | 217 | 896 | 47 | 48 | 3,989 | - | 5,358 |
| Loans and advances | 74,565 | 13,988 | 14,798 | - | - | 4,624 | - | 107,975 |
| Clients' and brokers' balances | 169,733 | - | - | - | - | - | - | 169,733 |
| Other assets* | 30,343 | 433 | 12,201 | - | 43,768 | 24,201 | 60,912 | 171,858 |
| **Total assets** | 1,001,291 | 415,999 | 239,758 | 20,118 | 58,951 | 320,932 | 123,221 | 2,180,270 |

* Includes statutory deposits with Bank Negara Malaysia, property and equipment, intangible assets, deferred tax assets and goodwill.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM/GP8: (continued)

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Up to 1 week RM'000 | 1 week to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | Over 1 year RM'000 | No specific maturity RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 309,917 | 81,088 | 4,238 | - | - | - | - | 395,243 |
| Deposits and placements of banks and other financial institutions | 540,705 | 201,288 | - | 4,448 | 1,558 | - | - | 747,999 |
| Derivative financial liabilities | 733 | 451 | 1,432 | 26 | 2 | 2,515 | - | 5,159 |
| Clients' and brokers' balances | 591,595 | - | - | - | - | - | - | 591,595 |
| Other liabilities | 12,790 | 352 | 1,429 | - | 65,313 | - | - | 79,884 |
| Borrowings | - | 20,075 | - | - | - | - | - | 20,075 |
| **Total liabilities** | 1,455,740 | 303,254 | 7,099 | 4,474 | 66,873 | 2,515 | - | 1,839,955 |
| **Total equity** | - | - | - | - | - | - | 340,315 | 340,315 |
| **Total liabilities and equity** | 1,455,740 | 303,254 | 7,099 | 4,474 | 66,873 | 2,515 | 340,315 | 2,180,270 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (c) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilites (include non-financial instruments) as at 30 June 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM/GP8: (continued)

| | The Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Up to 1 week RM'000 | 1 week to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | Over 1 year RM'000 | No specific maturity RM'000 | Total RM'000 |
| **Assets** | | | | | | | | |
| Cash and short-term funds | 10,157 | - | - | - | - | - | - | 10,157 |
| Financial assets held-for-trading | - | - | - | - | - | - | 477 | 477 |
| Other assets | 105 | - | - | - | 5 | - | - | 110 |
| Tax recoverable | - | - | - | - | - | - | 1,306 | 1,306 |
| Investment in subsidiary companies | - | - | - | - | - | - | 268,189 | 268,189 |
| **Total assets** | 10,262 | - | - | - | 5 | - | 269,972 | 280,239 |
| **Liabilities** | | | | | | | | |
| Other liabilities | 109 | - | - | - | 492 | - | - | 601 |
| Borrowings | - | 20,075 | - | - | - | - | - | 20,075 |
| **Total liabilities** | 109 | 20,075 | - | - | 492 | - | - | 20,676 |
| **Total equity** | - | - | - | - | - | - | 259,563 | 259,563 |
| **Total liabilities and equity** | 109 | 20,075 | - | - | 492 | - | 259,563 | 280,239 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (c) Liquidity risk (continued)

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| | Up to 1 month RM'000 | 1 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 3 years RM'000 | 3 to 5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 391,286 | 4,240 | - | - | - | - | 395,526 |
| Deposits and placements of banks and other financial institutions | 742,272 | 4,507 | 1,584 | - | - | - | 748,363 |
| Derivative financial liabilities | | | | | | | |
| - Gross settled derivatives | | | | | | | |
| - Inflow | (557,566) | (303,551) | - | - | - | - | (861,117) |
| - Outflow | 558,279 | 304,201 | - | - | - | - | 862,480 |
| - Net settled derivatives | (38) | 547 | 311 | 1,370 | 123 | 18 | 2,331 |
| Clients' and brokers' balances | 591,595 | - | - | - | - | - | 591,595 |
| Borrowings | 20,134 | - | - | - | - | - | 20,134 |
| Other liabilities | 13,026 | - | 64,896 | - | - | - | 77,922 |
| **Total financial liabilities** | 1,758,988 | 9,944 | 66,791 | 1,370 | 123 | 18 | 1,837,234 |

| | The Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| | Up to 1 month RM'000 | 1 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 3 years RM'000 | 3 to 5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
| **Liabilities** | | | | | | | |
| Borrowings | 20,134 | - | - | - | - | - | 20,134 |
| Other liabilities | 109 | - | 492 | - | - | - | 601 |
| **Total financial liabilities** | 20,243 | - | 492 | - | - | - | 20,735 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk

#### *(i) Maximum exposure to credit risk*

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Company would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Group and the Company:

| | 2011 | |
|---|---|---|
| | The Group RM'000 | The Company RM'000 |
| Credit risk exposure relating to on-balance sheet assets: | | |
| Short-term funds (exclude cash in hand) | 887,249 | 10,157 |
| Reverse repurchase agreements | 159,684 | - |
| Deposits and placements with banks and other financial institutions | 60,125 | - |
| Financial assets and investments portfolios (exclude shares) | | |
| - Financial assets held-for-trading | 378,283 | 477 |
| - Financial investments available-for-sale | 72,437 | - |
| - Financial investments held-to-maturity | 112,647 | - |
| Loans and advances | 107,975 | - |
| Clients' and brokers' balances | 169,733 | - |
| Other assets | 67,986 | 110 |
| Derivative financial assets | 5,358 | - |
| | 2,021,477 | 10,744 |
| Credit risk exposure relating to off-balance sheet items: | | |
| Commitments and contingencies | 322,487 | - |
| Total maximum credit risk exposure | 2,343,964 | 10,744 |

#### *(ii) Collaterals*

The main type of collaterals obtained by the Group are as follows:

(a) Fixed deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Quoted shares

The Group also accept non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

#### *(iii) Credit quality*

(a) Loans and advances

All loans and advances are categorised as either:

- neither past due nor impaired;
- past due but not impaired; or
- impaired

Past due loans and advances refers to loans that are overdue by one day or more. Impaired loans and advances are loans and advances with months-in-arrears more than 90 days or with impaired allowances.

Loans and advances are summarised as follows:

| | The Group 2011 RM'000 |
|---|---|
| Neither past due nor impaired | 104,924 |
| Past due but not impaired | - |
| Individually impaired | 9,374 |
| Gross loans and advances | 114,298 |
| Less : Allowance for impaired loans, advances and financing | |
| - Individual assessment allowance | (4,679) |
| - Collective assessment allowance | (1,644) |
| Total net loans and advances | 107,975 |

(i) Loans and advances neither past due nor impaired

Analysis of loans, advances and financing that are neither past due nor impaired analysed based on the Bank and the Group's internal credit grading system is as follows:

| | The Group 2011 RM'000 |
|---|---|
| Grading classification | |
| - Good | 104,924 |
| - Fair | - |
| Total neither past due nor impaired | 104,924 |

The definition of the grading classification can be summarised as follows:

*Good:*
Refers to loans and advances which have never been past due in the last 6 months and have never undergone any restructuring or rescheduling exercise previously.

*Fair:*
Refers to loans and advances which have been past due at some point within the last 6 months, or have undergone restructuring or rescheduling exercise previously.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

#### *(iii) Credit quality* (continued)

(a) Loans and advances (continued)

(ii) Loans and advances past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

There was no loans and advances past due but not impaired for the Group.

(iii) Loans and advances that are individually determined to be impaired as at 30 June 2011 are as follows:

| | The Group<br>2011<br>RM'000 |
|---|---|
| Gross amount of individually impaired loans | 9,374 |
| Less: Individual assessment allowance | (4,679) |
| Total net amount individually impaired loans | 4,695 |
| Fair value of collateral | - |

(b) The credit quality of financial assets other than loans and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

#### *(iii) Credit quality* (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets.

Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets are summarised as follows:-

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Short term funds and deposits and placements with financial institutions RM'000 | Reverse repurchase agreements RM'000 | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 | Financial investments held-to-maturity RM'000 | Clients' and brokers' balances RM'000 | Other assets RM'000 | Derivative financial assets RM'000 |
| Neither past due nor impaired | 947,374 | 159,684 | 378,283 | 72,437 | 112,647 | 169,525 | 67,986 | 5,358 |
| Individually impaired | - | - | - | - | - | 12,589 | - | - |
| Less : Impairment losses | - | - | - | - | - | (12,381) | - | - |
| | 947,374 | 159,684 | 378,283 | 72,437 | 112,647 | 169,733 | 67,986 | 5,358 |

| | The Company | | |
|---|---|---|---|
| | 2011 | | |
| | Short term funds and deposits and placements with financial institutions | Financial assets held-for-trading | Other assets |
| Neither past due nor impaired | 10,157 | 477 | 110 |
| Individually impaired | - | - | - |
| Less : Impairment losses | - | - | - |
| | 10,157 | 477 | 110 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

#### *(iii) Credit quality* (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets (continued).

(i) Analysis of short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets that are neither past due nor impaired by rating agency designation as at 30 June 2011 are as follows:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | |
| | Short term funds and deposits and placements with financial institutions RM'000 | Reverse repurchase agreements RM'000 | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 | Financial investments held-to-maturity RM'000 | Clients' and brokers' balances RM'000 | Other assets RM'000 | Derivative financial assets RM'000 |
| AAA to AA3 | - | - | 265,033 | 51,298 | 20,565 | - | 11,213 | 1,842 |
| A1 to A3 | - | - | 17,436 | 10,902 | - | - | 30,108 | - |
| Baa1 to Baa3 | - | - | 68,210 | - | 76,710 | - | - | - |
| P1 to P3 | 733,520 | - | 20,143 | - | - | - | - | - |
| Non-rated, of which: | | | | | | | | |
| - Bank Negara Malaysia | 193,831 | 159,684 | - | - | - | - | - | - |
| - Malaysia Government Investment Issues | - | - | - | - | 5,153 | - | - | - |
| - Government Guaranteed Private Debt Securities | - | - | - | 10,237 | 10,219 | - | - | - |
| - Others | 20,023 | - | 7,461 | - | - | 169,733 | 26,665 | 3,516 |
| | 213,854 | 159,684 | 7,461 | 10,237 | 15,372 | 169,733 | 26,665 | 3,516 |
| | 947,374 | 159,684 | 378,283 | 72,437 | 112,647 | 169,733 | 67,986 | 5,358 |

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

#### *(iii) Credit quality* (continued)

(b) Short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets (continued).

(i) Analysis of short term funds, deposits and placements with banks and other financial institutions, reverse repurchase agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets that are neither past due nor impaired by rating agency designation as at 30 June 2011 are as follows (continued) :

| | The Company | | |
|---|---|---|---|
| | 2011 | | |
| | Short term funds and deposits and placements with financial institutions | Financial assets held-for-trading | Other assets |
| P1 to P3 | 10,157 | - | - |
| Non-rated, of which: | - | 477 | 110 |
| - Others | - | 477 | 110 |
| | 10,157 | 477 | 110 |

#### *(iv) Loans and advances renegotiated*

Credit facilities are classified as rescheduled and restructured ("R&R") assets when the Group grant concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A R&R credit facility is classified into the appropriate facility grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the R&R terms.

R&R assets are not classified as non impaired until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the R&R terms during the observable period.

| | The Group |
|---|---|
| | 2011<br>RM'000 |
| Carrying amount of renegotiated loans and advances that would otherwise be past due or impaired | - |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

#### *(v) Collateral and other credit enhancements obtained*

(a) Fair value of collateral held for loans and advances which are individually impaired

| | The Group 2011 RM'000 |
|---|---|
| Properties | - |
| Shares | - |

(b) Repossessed collateral

As and when required, the Group will take possession of collateral they hold as securities and will dispose of them as soon as practicable but not later than 5 years from the date they take possession, with the proceeds used to reduce the outstanding indebtedness. Repossessed collaterals are classified in the statements of financial position as other assets. There is no repossessed collateral as at the reporting date.

Credit risk exposure analysed by industry in respect of the Group's and the Company's financial assets, including off-balance financial instruments are set out below:

| 2011 The Group | Short term funds and deposits and placements with financial institutions RM'000 | Reverse repurchase agreements RM'000 | Financial assets held-for-trading RM'000 | Financial investments available-for-sale RM'000 | Financial investments held-to-maturity RM'000 | Loans and advances RM'000 | Clients' and brokers' balances RM'000 | Other assets RM'000 | Derivative financial assets RM'000 | On-balance sheet total RM'000 | Credit related commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | - | - | - | 10,099 | - | 15,588 | - | - | - | 25,687 | - |
| Mining and quarrying | - | - | - | - | - | 4,627 | - | - | - | 4,627 | - |
| Manufacturing | - | - | - | - | 10,246 | 12,108 | - | - | - | 22,354 | - |
| Electricity, gas and water | - | - | - | 6,482 | - | - | - | - | - | 6,482 | 20,078 |
| Wholesale and retail | - | - | - | 10,398 | - | - | - | - | - | 10,398 | - |
| Transport, storage and communications | - | - | 59,163 | - | 5,089 | - | - | - | - | 64,252 | - |
| Finance, insurance, real estate and business services | 754,324 | - | 319,120 | 19,797 | 92,159 | - | - | 43,269 | 5,358 | 1,234,027 | 160 |
| Government and government agencies | 193,050 | 159,684 | - | 25,661 | 5,153 | - | - | 9,976 | - | 393,524 | - |
| Purchase of securities | - | - | - | - | - | 74,564 | 165,813 | - | - | 240,377 | 302,249 |
| Others | - | - | - | - | - | 1,088 | 3,920 | 14,741 | - | 19,749 | - |
| | 947,374 | 159,684 | 378,283 | 72,437 | 112,647 | 107,975 | 169,733 | 67,986 | 5,358 | 2,021,477 | 322,487 |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

### (d) Credit risk (continued)

Credit risk exposure analysed by industry in respect of the Group's and the Company's financial assets, including off-balance financial instruments are set out below (continued):

| | 2011 | | | |
|---|---|---|---|---|
| | The Company | | | |
| | Short term funds and deposits and placements with financial institutions RM'000 | Financial assets held-for-trading RM'000 | Other assets RM'000 | On-balance sheet total RM'000 |
| Finance, insurance, real estate and business services | 10,157 | 477 | - | 10,634 |
| Others | - | - | 110 | 110 |
| | 10,157 | 477 | 110 | 10,744 |

### (e) 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 reporting 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.

As at 30 June 2011, the total fair value of each financial instrument approximates its carrying amount.

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.

***Financial assets held-for-trading, 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.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 42 FINANCIAL INSTRUMENTS (continued)

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

***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.

The fair values of impaired floating and fixed rate loans are represented by their carrying value, net of individual assessment allowance, being the expected recoverable amount.

***Clients′ and brokers′ balances***

The carrying amount as at reporting 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 from customers***

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For each deposit with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

***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.

## 43 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 2011
(continued)

## 43 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 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 statement of financial position. The cost of operating the ESOS scheme is charged to the profit or loss.

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.

On 19 January 2011, the Company's wholly owned subsidiary, Hong Leong Investment Bank Berhad ("the Bank") granted 4,475,000 conditional incentive share options of the Company's shares (Affirmative Action Bonus ("AAB")) options to eligible executives of the Bank pursuant to ESOS at exercise price of RM1.42.

The ordinary share options granted under the ESOS are as follows:

| Grant date | Expiry date | As at 30 June 2011 |
|---|---|---|
| 19 January 2011 | 18 July 2013* | 1,342,500 |
| 19 January 2011 | 18 April 2014^ | 1,566,250 |
| 19 January 2011 | 18 April 2015^ | 1,566,250 |
| | | 4,475,000 |

* The exercise period is up to 6 months from the date of notification of entitlement ("Vesting Date").
^ The exercise period is up to 3 months from the Vesting Date.

The estimated fair value of each share option granted is between RM0.36 to RM0.48 per option. This was calculated using the Black-Scholes model. The model inputs were the share price at grant date of RM1.39, exercise price of RM1.42, expected volatility of 36.7%, expected yield of 0% and a risk free interest rate of 3.8%.

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 43 EQUITY COMPENSATION BENEFITS (continued)

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

The options outstanding at 30 June 2011 had an exercise price of RM1.42 and weighted average remaining contractual life (from grant date to the end of exercise period) of 3 years.

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

| | The Group and The Company | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Number of trust shares held '000 | Market value RM'000 | Number of trust shares held '000 | Market value RM'000 |
| At 1 July | 12,287 | 17,448 | 3,944 | 4,260 |
| Shares purchased | - | - | 8,343 | 9,010 |
| At 30 June | 12,287 | 17,448 | 12,287 | 13,270 |

## 44 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

**(a) 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 Securities Commission had, vide its letter dated 18 June 2010, informed that the transfer of the HLG Futures Business to HLIB had 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, the High Court had granted the approval for the Proposed Integration.

The Proposed Integration was completed on 2 October 2010.

**(b) Change of Name**

On the 13 August 2010, the Company announced the proposal 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 shareholder of the Company had, on 26 October 2010, approved the Proposed Change of Name which was subsequently effected on 4 November 2010.

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

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

### (c) Incorporation of HL Asset Management Pte Ltd

On 21 June 2011, Hong Leong Asset Management Berhad ("HLAM"), the subsidiary of the Company incorporated a wholly-owned subsidiary in Singapore known as HL Asset Management Pte Ltd ("HLAMPL") with paid-up capital of SGD2.00. As at 30 June 2011, HLAMPL has not commenced operation and remained dormant.

## 45 SIGNIFICANT EVENT AFTER THE FINANCIAL YEAR

On 5 August 2011, HLG Futures, a wholly owned subsidiary of the Company, had reduced its issued and paid-up capital from RM5,000,000 divided into 5,000,000 issued and fully paid-up ordinary shares of RM1.00 each to RM2.00 divided into 5,000,000 issued and fully paid-up ordinary shares of RM0.0000004 each and such reduction was effected by returning to the shareholder the 5,000,000 ordinary shares that have been issued as paid-up capital to the extent of RM0.9999996 per share, such capital being in excess of the needs of HLG Futures and by reducing the nominal amount of each such ordinary share to RM0.0000004.

Upon the aforesaid capital reduction taking effect, the 5,000,000 shares of RM0.0000004 each of HLG Futures are consolidated in such manner that every 2,500,000 of the said shares constitute one (1) RM1.00 share upon which the sum of RM1.00 is credited as fully paid-up.

## 46 CHANGES IN ACCOUNTING POLICIES AND COMPARATIVES

During the financial year, the Group and the Company changed the following accounting policies upon adoption of the new accounting standards, amendments and improvements to published standards and interpretations:

- Leasehold land
- Financial assets
- Financial liabilities
- Impairment of financial assets

Refer to summary of significant accounting policies for the details of the changes in accounting policies.

The impact of such changes on the financial statements of the Group and the Company are set out below.

(i) Impact on the Group's statement of financial position:

| | The Group | | |
|---|---|---|---|
| | Balance as at 30 June 2009 | | |
| | As previously reported RM'000 | Improvement to FRS 117 RM'000 | As restated RM'000 |
| Property and equipment | 4,750 | 1,132 | 5,882 |
| Prepaid lease payments | 1,132 | (1,132) | - |

| | The Group | | |
|---|---|---|---|
| | Balance as at 30 June 2010 | | |
| | As previously reported RM'000 | Improvement to FRS 117 RM'000 | As restated RM'000 |
| Property and equipment | 5,803 | 1,131 | 6,934 |
| Prepaid lease payments | 1,131 | (1,131) | - |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 46 CHANGES IN ACCOUNTING POLICIES AND COMPARATIVES (continued)

(i) Impact on the Group's statement of financial position (continued):

| | The Group | | |
|---|---|---|---|
| | As at 1 July 2010 RM'000 | Effects of adopting FRS 139 RM'000 | Adjusted as at 1 July 2010 RM'000 |
| Retained profits | 58,796 | (2,630) | 56,166 |
| Loans and advances | 117,926 | (3,506) | 114,420 |
| Deferred tax assets | 53,038 | 876 | 53,914 |
| Loans and advances of which: | | | |
| - Impaired loans and advances | 2,688 | 10,012 | 12,700 |

| | The Group | | |
|---|---|---|---|
| | Increase/(decrease) to balance as at 30 June 2011 | | |
| | FRS 117 RM'000 | FRS 139 RM'000 | Total RM'000 |
| **Assets** | | | |
| Cash and short term funds | - | 274 | 274 |
| Reverse repurchase agreements | - | 279 | 279 |
| Deposits and placements with banks and other financial institutions | - | 125 | 125 |
| Financial assets held-for-trading | - | 2,697 | 2,697 |
| Financial investments available-for-sale | - | 667 | 667 |
| Financial investments held-to-maturity | - | 949 | 949 |
| Loans and advances | - | (3,761) | (3,761) |
| Other assets | - | (4,992) | (4,992) |
| Deferred tax assets | - | 940 | 940 |
| Prepaid lease payments | (1,130) | - | (1,130) |
| Property and equipment | 1,130 | - | 1,130 |

# NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 46 CHANGES IN ACCOUNTING POLICIES AND COMPARATIVES (continued)

(i) Impact on the Group's statement of financial position (continued):

| | The Group | | |
|---|---|---|---|
| | Increase/(decrease) to balance as at 30 June 2011 | | |
| | FRS 117 RM'000 | FRS 139 RM'000 | Total RM'000 |
| **Liabilities** | | | |
| Deposits from customers | - | 118 | 118 |
| Deposits and placements of banks and other financial institutions | - | 359 | 359 |
| Other liabilities | - | (552) | (552) |
| Borrowings | - | 75 | 75 |
| **Equity** | | | |
| Retained profits | - | (2,822) | (2,822) |

(ii) Impact on the Group's income statement:

| | FRS 139 |
|---|---|
| | Increase/ (decrease) for the financia year ended 30 June 2011 RM'000 |
| Interest income | (259) |
| Allowance for impairment losses on loans and advances and other losses | 4 |
| Profit/(loss) before taxation | (255) |
| Taxation | 63 |
| Net profit/(loss) for the financial year | (192) |
| Earning per share (sen) | (0.08) |

# NOTES
# TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2011
(continued)

## 47 REALISED AND UNREALISED PROFITS

The determination of realised and unrealised profits is based on the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* as issued by the Malaysian Institute of Accountants on 20 December 2010 and the directive of Bursa Malaysia Securities Berhad.

| The Group | 2011 RM'000 |
|---|---|
| Total retained profits of Hong Leong Capital Berhad and its subsidiaries | |
| - Realised | 68,562 |
| - Unrealised | |
| - in respect of deferred tax assets recognised in the profit or loss | 42,311 |
| - in respect of other items of income and expenses | 1,600 |
| | 112,473 |
| Less: Consolidation adjustments | (34,960) |
| Total Group's retained profits | 77,513 |

| The Company | 2011 RM'000 |
|---|---|
| Total retained profits of Hong Leong Capital Berhad | |
| - Realised | 25,693 |
| - Unrealised - in respect of other items of income and expenses | 177 |
| | 25,870 |

The Group views translation gains or losses on monetary items as realised as it is incurred in the ordinary course of business.

The disclosure of realised and unrealised profits or losses above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

# 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 Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), do hereby state that, in the opinion of the Directors, the financial statements set out on pages 37 to 121 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 2011 and of the results and 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**
*Director*

**CHOONG YEE HOW**
*Director*

Kuala Lumpur
20 September 2011

# 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 Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), do solemnly and sincerely declare that the financial statements set out on pages 37 to 121 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
20 September 2011

Before me,

**PARAMESWARY A/P GOVINDASAMY**
Commissioner for Oaths

# INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Capital Berhad
(formerly known as HLG Capital Berhad)
(Incorporated in Malaysia) (Company No: 213006-U)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), which comprise the statements of financial position as at 30 June 2011 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows 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 notes 1 to 46.

### Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### 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 judgement, 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 of the financial statements that give a true and fair view 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 2011 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 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) Our 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 Hong Leong Capital Berhad
(formerly known as HLG Capital Berhad)
(Incorporated in Malaysia) (Company No: 213006-U)
(continued)

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 47 on page 121 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## 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*

**ONG CHING CHUAN**
*(No. 2907/11/11 (J))*
*Chartered Accountant*

Kuala Lumpur
20 September 2011

# NOTICE
# OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Twentieth Annual General Meeting of Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) ("the Company") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 27 October 2011 at 11.00 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 year ended 30 June 2011.

2. To approve the payment of Directors' fees of RM310,000 for the year ended 30 June 2011 (2010: RM326,438), 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) Mr Choong Yee How ***(Resolution 2)***
   (b) YBhg Dato' Ahmad Fuaad bin Mohd Dahalan ***(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 a 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 5 October 2011 ("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 5 October 2011 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. 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
5 October 2011

# 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.

**EXPLANATORY NOTES ON 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 26 October 2010 and which will lapse at the conclusion of the Twentieth AGM.

   The Renewed Mandate will enable the Directors to take swift action in case of a need for corporate exercises or in the event business opportunities 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 and 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 ("HLCB Group") to enter into recurrent related party transactions of a revenue or trading nature which are necessary for HLCB 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 5 October 2011 which is dispatched together with the Company's 2011 Annual Report.

# 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 Twentieth 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 2 SEPTEMBER 2011

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 2 September 2011**

| Size of Holdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| Less than 100 | 49 | 1.52 | 1,881 | 0.00 |
| 100 – 1,000 | 694 | 21.61 | 639,194 | 0.26 |
| 1,001 – 10,000 | 1,886 | 58.72 | 8,637,104 | 3.50 |
| 10,001 – 100,000 | 526 | 16.38 | 15,651,561 | 6.34 |
| 100,001 – less than 5% of issued shares | 56 | 1.74 | 26,703,701 | 10.81 |
| 5% and above of issued shares | 1 | 0.03 | 195,263,227 | 79.09 |
| | 3,212 | 100.00 | 246,896,668 | 100.00 |

**List of Thirty Largest Shareholders as at 2 September 2011**

| 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>*- Exempt AN for UBS AG Hong Kong (Foreign)* | 1,000,000 | 0.41 |
| 5. | Tan Liew Cheun | 930,000 | 0.38 |
| 6. | Low Poh Weng | 688,000 | 0.28 |
| 7. | HDM Nominees (Asing) Sdn Bhd<br>*- Lim & Tan Securities Pte Ltd (A/C House)* | 628,000 | 0.25 |
| 8. | HLG Nominee (Tempatan) Sdn Bhd<br>*- Chut Nyak Isham Bin Nyak Ariff* | 500,000 | 0.20 |
| 9. | Malacca Equity Nominees (Tempatan) Sdn Bhd<br>*- Ho Kok Kiang* | 500,000 | 0.20 |

# OTHER INFORMATION
(continued)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 2 SEPTEMBER 2011 (continued)

**List Of Thirty Largest Shareholders As At 2 September 2011** (continued)

| | Name of Shareholders | No. of Shares | % |
|---|---|---|---|
| 10. | Pacific & Orient Insurance Co Berhad | 397,000 | 0.16 |
| 11. | Chong Thuah Realty Sdn Bhd | 387,900 | 0.16 |
| 12. | HSBC Nominees (Asing) Sdn Bhd<br>- *Exempt AN for Credit Suisse* | 365,900 | 0.15 |
| 13. | ECML Nominees (Tempatan) Sdn. Bhd<br>- *Lim Ai Choo* | 322,000 | 0.13 |
| 14. | Su Ming Keat | 300,000 | 0.12 |
| 15. | Wong Wooi Choon @ Philip Wong | 300,000 | 0.12 |
| 16. | Life Enterprise Sdn Bhd | 295,800 | 0.12 |
| 17. | Public Nominees (Tempatan) Sdn Bhd<br>- *Lee Lak Chye @ Li Choy Hin* | 282,100 | 0.11 |
| 18. | Lee Sek Tah | 270,000 | 0.11 |
| 19. | Tan Kwang How | 240,000 | 0.10 |
| 20. | Amsec Nominees (Tempatan) Sdn Bhd<br>- *Yu Kuan Chon* | 233,000 | 0.09 |
| 21. | ECML Nominees (Tempatan) Sdn. Bhd<br>- *Lim Ai Leng* | 226,200 | 0.09 |
| 22. | Ng Tiong Pung | 223,000 | 0.09 |
| 23. | Cimsec Nominees (Tempatan) Sdn Bhd<br>- *Teoh Ewe Jin* | 204,000 | 0.08 |
| 24. | Omar Bin Zolkifli | 200,068 | 0.08 |
| 25. | Low Vee Leong | 200,000 | 0.08 |
| 26. | MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd<br>- *Yu Kuan Chon* | 200,000 | 0.08 |
| 27. | Yee Chin Shiar | 200,000 | 0.08 |
| 28. | Sai Yee @ Sia Say Yee | 188,000 | 0.08 |
| 29. | Soon Li Voon | 185,900 | 0.08 |
| 30. | Mayban Nominees (Tempatan) Sdn Bhd<br>- *Poon Ying Peng* | 180,500 | 0.07 |
| | | 218,452,695 | 88.48 |

# OTHER INFORMATION
(continued)

## 2. ANALYSIS OF SHAREHOLDINGS AS AT 2 SEPTEMBER 2011 (continued)

**Substantial Shareholders**

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 2 September 2011 are as follows:-

| Names of Shareholders | Direct Interest No. of Shares | % | Indirect Interest 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

## 3. DIRECTORS' INTERESTS AS AT 2 SEPTEMBER 2011

Subsequent to the financial year end, there is no change, as at 2 September 2011 to the Directors' interests in the ordinary shares and/or preference shares and/or convertible bonds and/or options over ordinary shares of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 27 to 36 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: | | |
| GuocoLand Limited ("GLL") | 1,059,796* | 0.08* |
| GuocoLeisure Limited | 919,572,425 | 67.22 |
| The Rank Group Plc | 291,001,931 | 74.50 |

** Based on the enlarged share capital of GLL assuming full conversion of S$352,200,000 nominal value of GLL's convertible bonds as at 2 September 2011.

# OTHER INFORMATION
(continued)

## 4. 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 | 4,793 | 17 | 1,955 | 31/12/1993 |

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**Hong Leong** Capital Berhad (213006-U)

(formerly known as HLG Capital Berhad)
A Member of the Hong Leong Group

# FORM OF PROXY

I/We ______________________________________________

of______________________________________________being a member/members of

Hong Leong Capital Berhad (formerly known as 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 Twentieth Annual General Meeting of the Company to be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 27 October 2011 at 11.00 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 Mr Choong Yee How as a Director | | |
| 3. | To re-elect YBhg Dato' Ahmad Fuaad bin Mohd Dahalan as a 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 | | |

Dated this ____________________ day of ______________ 2011

______________________ ______________________

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 |
|---|---|
| | |
| | |

*Fold This Flap For Sealing*

*Then Fold Here*

Affix
Stamp

**HONG LEONG CAPITAL BERHAD**
(formerly known as HLG Capital Berhad)
Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

*1st Fold Here*