Hong Leong Capital Berhad

ANNUAL REPORT 2017


HongLeong Bank

Vision

An outstanding financial services organisation, highly competitive and profitable, where people make the difference

Contents

Introduction

Hong Leong 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, nominees and custodian service, unit trust and fund management and related financial services, and investment management services across the region.

Hong Leong Capital Berhad ("HLCB") is an investment holding company of the investment banking and asset management business group under Hong Leong Financial Group. It aims to be a leading regional financial services institution providing diversified clients with a full range of value propositions and financial solutions in the areas of investment banking, stockbroking, futures broking, nominees and custodian services, unit trust and fund management and related financial services, and investment management services. These segments are serviced by HLCB's key operating subsidiaries, namely Hong Leong Investment Bank Berhad ("HLIB") and Hong Leong Asset Management Bhd ("HLAM").

HLIB has two main divisions, namely the Investment Banking division and the Stockbroking division. The core activities of the Investment Banking Division include arranging and managing debt and equity fund raising and other corporate related advisory work. The Investment Banking Division also offers debt and equity underwriting, deposit taking, treasury related solutions as well as trading and distribution services.

The Stockbroking Division of HLIB provides the complete range of broking services for a wide range of clients, ranging from institutional and retail, to high net worth investors. Supported by a dedicated client centric sales team committed to providing timely advice and good trade execution, as well as a research team headed by a rated analyst and supported by a professional team of industry specialists, the bank strives to deliver groundbreaking insights and fresh perspectives on investing ideas.

HLAM, is an established asset management company with more than 20 years' of operating track record via a merger between HLG Unit Trust Bhd, one of the pioneers in the Malaysian Unit Trust industry, and HLG Asset Management Sdn Bhd. HLAM currently offers and manages a broad spectrum of investment solutions in equities, fixed income, money market and mixed assets across segregated assets and unit trust funds for, amongst others, state governments, insurance companies, endowments, family offices, corporations, and high net worth individuals.

Supported by strong business acumen, its firm foundation of values, efficient customer support, and distribution and communications channels, HLCB, together with HLIB and HLAM, are focused on assisting its wide range of clients in achieving superior long term risk-adjusted returns.

Introduction

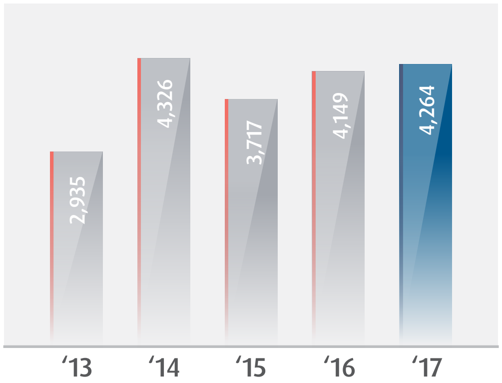
Five Year Group Financial Highlights

The Group	2013 RM 'Million	2014 RM 'Million	2015 RM 'Million	2016 RM 'Million	2017 RM 'Million
Statements of Financial Position					
Total Assets	2,935	4,326	3,717	4,149	**4,264**
Net Loans	174	431	326	372	**237**
Total Liabilities	2,454	3,724	3,064	3,449	**3,519**
Deposits from customers	470	632	842	1,032	**649**
Shareholders' Funds	482	602	654	700	**745**
Commitments and contingencies	6,179	5,466	7,413	8,732	**7,931**
Statements of Income					
Revenue	191	191	183	173	**202**
Profit before taxation	68	78	79	65	**84**
Net Profit	90	119	76	62	**79**
Key Performance Indicators					
Book Value per Share (RM)	2.05	2.53	2.71	2.90	**3.09**
Earnings per Share (sen)	38.4	49.9	31.7	25.6	**32.8**
Net Dividend per Share (sen)	–	15.0	8.5	12.0	**19.0**
Financial Ratios (%)					
Profitability Ratios					
Return on Equity	18.7%	19.7%	11.7%	8.8%	**10.6%**
Return on average assets	3.3%	3.3%	1.9%	1.6%	**1.9%**
Cost/income ratio	63.3%	58.8%	57.6%	62.7%	**58.4%**
Asset Quality/Loan Ratios					
Gross loans to deposits ratio	37.3%	68.5%	38.8%	36.2%	**36.5%**
Gross impaired loans ratio	0.6%	0.2%	0.2%	0.2%	**4.9%**

Five Year Group Financial Highlights

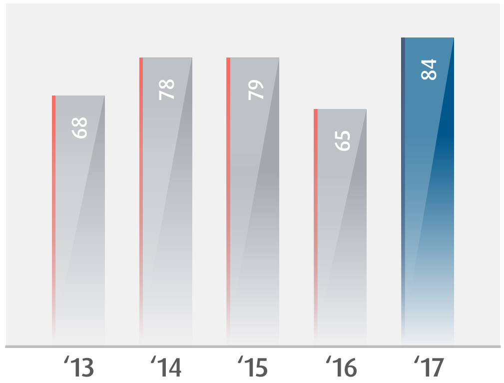
Group Total Assets
(RM'Million)

YoY 3%
CAGR = 9.8%



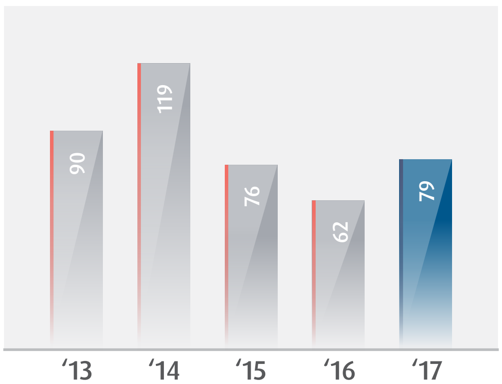
Group Profit Before Taxation
(RM'Million)

YoY 30%
CAGR = 5.5%



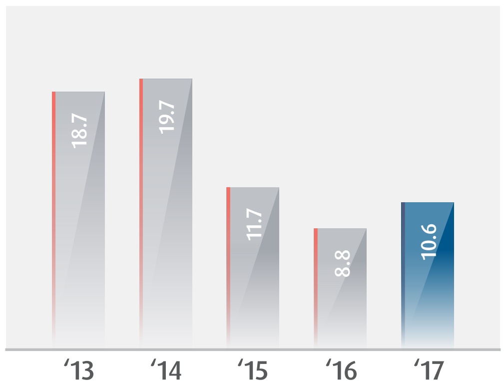
Group Net Profit
(RM'Million)

YoY 28%
CAGR = -3.2%



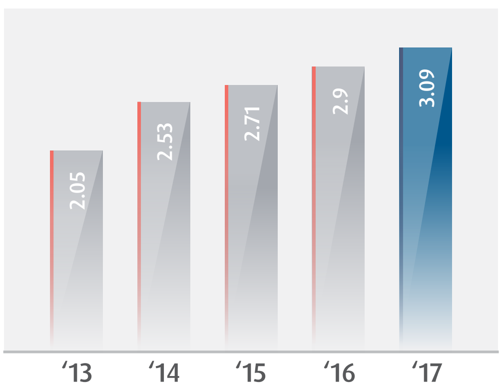
Group Return On Equity
(%)

YoY 20%



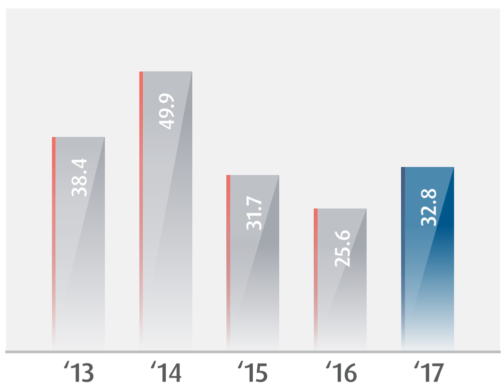
Book Value per Share
(RM)

YoY 7%



Group Earnings per Share
(sen)

YoY 28%



Chairman's Statement

A Commitment to Enhancing Value For All

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Hong Leong Capital Berhad ("HLCB" or "the Group") for the financial year ("FY") ended 30 June 2017.

Chairman's Statement

RM84.0 MILLION
profit before taxation

32.8 SEN
earnings per share

OVERALL BUSINESS ENVIRONMENT

After two years of facing considerable external and domestic headwinds, signs of recovery emerged in the second half of 2016 and continued into the first half of 2017. Real GDP growth recovered from a low of 4.0% in 2Q16 to an improved 5.6% in 1Q17. In the domestic economy, the modest recovery in consumer sentiment, the increase in wages and additional Government assistance like the BR1M and lower EPF contributions, supported private consumption. The implementation of new and ongoing projects in the manufacturing and services sectors sustained investment activity. Meanwhile, on the external front, rising optimism and restocking activity started to take hold which led to a rebound in Malaysia's exports.

Similarly, most sectors started to record an upswing in the latter part of 2016. The upturn in external trade, especially in the electrical and electronics sector supported manufacturing activity. The services sector was also influenced by the improvement in domestic consumption. However, the lingering effects of adverse weather conditions generated by El Nino continued to weigh on the agriculture sector. Nevertheless, the sector also saw a rebound in 2017 as the effect of El Nino dissipated.

In 2016, the domestic equity market was intermittently influenced by global events throughout the year. Signals of higher interest rates in the US and unexpected political developments in the US and Europe led to volatility in the global financial markets. This was also reflected in Malaysia's equity market as the FTSE Bursa Malaysia Kuala Lumpur Composite Index ("FBM KLCI") declined by 3.0% to close at 1,641.73 as at end 2016. However at the turn of 2017, better global growth prospects fueled a rise in global and domestic optimism. As a result, the FBM KLCI reached a high of 1,796.75 before moderating slightly to close at 1,763.67 as at 30 June 2017.

Despite the challenging year in FY2017, the Group recorded a higher profit before taxation of RM84.0 million for the financial year ended 30 June 2017.

During the earlier part of 2016, Malaysia experienced an influx of capital inflows into the bond market. This resulted in foreigners holding more than one-third of Malaysia's government bond securities. The global financial market volatility that ensued in the latter part of the year led to a sharp reduction in foreign participation in Malaysia's bond market by RM61.6 billion from November 2016 to March 2017. The bulk of the outflows were also due to the maturity of several bonds and Bank Negara Malaysia's measures to discourage speculative activity. Nevertheless, despite the sudden pullback in capital from the domestic financial market, overall domestic and financial conditions remained ample and supportive of economic activity.

FINANCIAL PERFORMANCE

Despite the challenging year in FY2017, the Group recorded a higher profit before tax of RM84.0 million for the financial year ended 30 June 2017 as compared to RM64.5 million in the previous corresponding year, an increase of RM19.5 million or 30.3%.

The investment banking subsidiary of the Group, namely Hong Leong Investment Bank Berhad ("HLIB") recorded a profit before tax of RM68.0 million in the current financial year as compared to RM57.6 million in the previous financial year.

The stockbroking business of HLIB recorded a higher revenue of RM79.6 million (FY2016: RM74.0 million) and a profit before tax of RM29.2 million; an 18.2% increase as compared to last year's profit before tax of RM24.7 million. This was attributed to higher trade volumes on Bursa Malaysia of RM554.4 billion in FY2017 compared to RM507.4 billion recorded in FY2016, an increase of 9.3%. HLIB also recorded higher traded volumes of RM46.6 billion in FY2017 compared to RM40.0 billion in FY2016, an increase of 16.6% which outperformed the increase in Bursa volume.

The investment banking business of HLIB also recorded a higher revenue of RM84.1 million (FY2016: RM70.8 million) and a profit before tax of RM38.8 million for FY2017; a 17.7% increase compared to the previous financial year's profit before tax of RM32.9 million on the back of improving market conditions induced by a pick-up in market activities.

Chairman's Statement

On the equities side, revenue in FY2017 benefitted from higher capital market activity to post a rise in placement and underwriting fee income of RM12.0 million compared to RM5.6 million in FY2016, whilst advisory fee income slipped marginally to RM5.6 million from RM6.2 million a year ago with a lower level of corporate transactions. Overall, revenue from our Equity Markets division rose 52.3% to RM17.9 million for FY2017, from RM11.7 million in the previous financial year.

In the corporate bonds & Sukuk market space, total gross issuance in 2016 amounted to RM85.2 billion, slightly below the total gross issuances in 2015 of RM85.6 billion. In 2016, unrated government guaranteed papers climbed to a new high of RM28.1 billion which was dominated by issuances to finance the infrastructure & utilities sector. Rated corporate bonds & Sukuk accounted for only 51% of the total issuances in 2016, which was a decline from 65% in 2015. Notwithstanding the challenging environment, our investment banking team still managed to maintain healthy deal flows with the completion of significant mandates reinforcing our presence in the debt capital market.

As for the Treasury & Markets ("T&M") division, FY2017 was categorised by volatility in the financial market arising from various market events such as BREXIT and the US Election. The volatilities in the financial markets had benefitted the team in their fixed income trading activities. Our T&M division reported revenue of RM35.2 million against RM25.6 million for FY 2016.

The Asset Management business registered a profit before tax of RM8.1 million for the current financial year; a 260.2% increase as compared to the previous financial year's profit before tax of RM2.2 million. This was due to higher net fee income earned from its larger average assets under management of RM12.7 billion in FY2017 as compared to RM9.8 billion in FY2016.

With improvements charted in all parts of our businesses, the earnings per share ("EPS") of HLCB Group have improved from 25.6 sen per share in the previous financial year to 32.8 sen per share in the current financial year. Accordingly, the Group is recommending a final single-tier dividend of 19.0 sen per share for FY2017. The total capital ratio of our key operating business, HLIB, stood at a healthy 29.566% as at 30 June 2017.

CORPORATE DEVELOPMENTS

RAM Rating Services Berhad ("RAM") had assigned AA1 and P1 financial institution ratings to HLIB with a positive outlook in April 2017.

Chairman's Statement

As the Malaysian economy continues to face challenging global macroeconomic conditions, staying nimble and efficient while holding a tight rein on our operating costs is of the utmost importance in navigating our businesses through this period. We are confident in managing these challenges and will continue to maintain our discipline in cost management measures. HLIB has consistently sought to maintain a judicious cost to income ratio ("CTI") and our CTI continues to be one of the lowest among the investment banks in Malaysia.

In recognition, I am pleased to report that our Debt Markets, the Equity Markets and the Stockbroking teams of HLIB and the Fund Management team of Hong Leong Asset Management Bhd have successfully won various league table achievements and awards throughout the financial year. Kindly refer to page 17 for the league table achievements and awards won by the Group under the Management Discussion and Analysis section.

SUSTAINABILITY

Building a sustainable Group is about how, at the core of everything we do, we are guided by our principles to make the right decisions that will hold us in good stead today and in the future. We think about this in a variety of ways. First, it is important to maintain focus on operational excellence and on the momentum we have built in managing operating expenses. We have made continued progress towards improving the efficiencies of our Group operating expenses whilst investing in new business initiatives and technologies.

Sustainability also includes having the right governance. We have a diverse and experienced Board of Directors that provides independent oversight. Our Board constantly looks for ways to ensure its diversity and strength and monitors corporate governance best practices to adapt and improve when necessary.

Chairman's Statement

Our approach to sustainability also comes through in our commitment to ensure our policies, practices, products and programs collectively align to our purpose. We have done this in part by creating simple, safe, transparent and easy-to-use financial solutions that give people greater control of their finances. Another way we think about sustainability is the work we do to strengthen our local economies, by working with and investing in them.

Finally, to be a sustainable company, we must value our people and give all employees the support they need to build their careers and achieve their goals. We have a diverse and inclusive workplace that reflects the diversity of the communities in which we serve. Through our recruitment programs and partnerships, we are investing in the future by bringing the best and brightest to work at Hong Leong. As we think about all the ways we pursue sustainability, our focus is to use our size and scale in ways that contribute positively to our communities, create opportunities for our customers and employees and to grow our company responsibly.

MOVING FORWARD

Despite a recovery in economic growth throughout FY2017, the outlook for FY2018 remains challenging as investors' sentiment remains susceptible to global economic uncertainties. However, I am confident that the Group will continue to focus on driving long-term sustainable growth for our businesses. Our team of dedicated staff will also strengthen our efforts to build resilience towards disruptions in the market in the way we manage our processes, assets and businesses.

ACKNOWLEDGEMENTS

The long-term success of the Group is attributed to the stewardship of our Board of Directors, management as well as our staff. We also wish to extend our appreciation to our clients, business partners, regulatory authorities, bankers, advisors, auditors, shareholders and all other stakeholders for their continued support. We look forward to another rewarding year with you.

QUEK LENG CHAN
Chairman

18 September 2017

Management Discussion & Analysis

We are pleased to present the Management Discussion and Analysis for the financial year ended 30 June 2017 ("FY17"). In this report, we would like to provide a review of our Group's business operations and financial performance during FY2017.

In summary, the Group has achieved an encouraging financial result of RM84.0 million in profit before tax from growth across all the business segments within the Group. We are striving towards increasing our market penetration with the objective of achieving long-term sustainable growth.

Management Discussion & Analysis

INTRODUCTION

Hong Leong Capital Berhad ("HLCB" or "the Group") is an investment holding company of the investment banking and asset management business group under Hong Leong Financial Group. It aims to be a leading regional financial services institution providing diversified clients with a full range of value propositions and financial solutions in the areas of investment banking, stockbroking, futures broking, nominees and custodian services, unit trust and fund management and related financial services, and investment management services. These segments are serviced by HLCB's two key operating subsidiaries, namely Hong Leong Investment Bank Berhad ("HLIB") and Hong Leong Asset Management Bhd ("HLAM").

HLIB has two main business divisions, namely the Investment Banking Division and the Stockbroking Division. There are three business pillars within the Investment Banking Division namely Debt Markets, Equity Markets and Treasury and Markets that offer a wide range of activities which include arranging and managing debt and equity fund raising and other corporate-related advisory work. The Investment Banking Division also offers debt and equity underwriting, deposit taking, treasury related solutions as well as trading and distribution services.

The Stockbroking Division of HLIB provides the complete range of retail and institutional stockbroking services, equity research, margin financing, nominees and custody services as well as futures and option broking services. These services are provided through a network of 3 branches and 6 Hong Leong Bank hubs in Malaysia.

HLAM, is an established asset management company with more than 20 years' of operating track record via a merger between HLG Unit Trust Bhd, one of the pioneers in the Malaysian Unit Trust industry, and HLG Asset Management Sdn Bhd. HLAM's business activities are categorized under Investments, Products and Distribution. Via a dedicated team of fund managers, HLAM offers and manages a broad spectrum of investment solutions in equities, fixed income, money market and mixed assets across segregated assets and unit trust funds for, amongst others, state governments, insurance companies, endowments, family offices, corporations, and high net worth individuals.

Management Discussion & Analysis

<table>
<tr><th colspan="6">HLIB</th></tr>
<tr><th colspan="3">Investment Banking Division</th><th colspan="3">Stockbroking Division</th></tr>
<tr><th>Debt Markets</th><th>Equity Markets</th><th>Treasury and Markets</th><th>Institutional Sales</th><th>Retail Business</th><th>Equity Derivative</th></tr>
<tr>
<td>Core activities:
✓ Arranging and managing debt fund raising:
• Corporate bond and Sukuk issuance
• Syndicated loans

✓ Corporate-related advisory works:
• Corporate restructuring
• Mergers and acquisitions
• Asset and investment valuation
• Takeovers and privatisations
• Capital market instruments

✓ Debt underwriting</td>
<td>Core activities:
✓ Arranging and managing equity fund raising:
• Initial public offering
• Rights issues
• Restricted issues
• Special issues
• Private placements

✓ Corporate-related advisory works:
• Equity underwriting</td>
<td>Core activities:
✓ Deposits taking

✓ Trading and investment of:
• Short-term money market investments
• Fixed income
• Interest rate instruments

✓ Treasury related solutions:
• Interest rate hedging
• Foreign exchange hedging
• Pricing and distribution of primary bonds</td>
<td>Core activities:
✓ Research, advisory and trade executions for Government Link and Non-Government Link Corporation Funds</td>
<td>Core activities:
✓ Provision of online trading platform for retail clients for the execution of equity, futures and option broking

✓ Provision of customer services support on technical and corporate actions

✓ Provision of margin financing to clients to trade or invest in listed equity

✓ Provision of nominees and custody services</td>
<td>Core activities:
✓ Index arbitrage activities capitalising on market inefficiencies between equity and futures market</td>
</tr>
</table>

Management Discussion & Analysis

INTRODUCTION (CONTINUED)

HLAM		
Fund Management and Unit Trust Management		
Investment	Product	Distribution
Core activities: ✓ Managing broad spectrum of investment portfolios through equities, fixed income, money market and mixed assets	**Core activities:** ✓ Design innovative product solutions to a broad range of private mandate and retail clientele ✓ Tailor made investment portfolios based on the risk scale ranging from cautious to dynamic	**Core activities:** ✓ Distribute and promote range of products and investment portfolios for private mandate and retail clientele ✓ Distribute and focus to build principled relationship by introducing investment solution to preserve clients' assets and to generate added value and deliver returns.

STRATEGIC OBJECTIVES OF THE GROUP

HLCB strongly believes that its core values form its foundation and framework. Its values build its character; they are the binding cord that holds its people together, the driving force towards the successful accomplishment of the Group's vision. Our long term goal has always been creating sustainable value towards the Group and focus on improving the well-being of our stakeholders in all aspects.

GROUP PERFORMANCE REVIEW

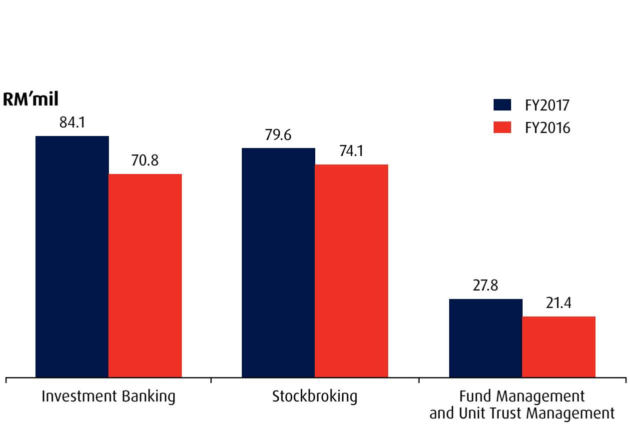
Despite the challenging market conditions in FY2017, HLCB Group achieved an encouraging growth of 30.3% in profit before tax ("PBT") from RM64.5 million in the financial year ended 30 June 2016 ("FY 2016") 2016 to RM84.0 million in FY2017. This is mainly due to higher profit contribution from all business segments in the Group.

	Investment Banking	Stockbroking	Fund Management and Unit Trust Management	Others	Total
FY2017	**RM000**	**RM000**	**RM000**	**RM000**	**RM000**
Revenue	84,087	79,597	27,778	10,553	202,015
Overheads	(44,865)	(50,770)	(19,699)	(2,576)	(117,910)
(Allowances for)/write back of impairment losses on loans and advances and other losses	(467)	399	–	–	(68)
PBT	38,755	29,226	8,079	7,977	84,037
FY2016					
Revenue	70,797	74,053	21,360	6,685	172,895
Overheads	(37,810)	(49,460)	(19,117)	(2,076)	(108,463)
(Allowances for)/write back of impairment losses on loans and advances and other losses	(67)	135	–	–	68
PBT	32,920	24,728	2,243	4,609	64,500

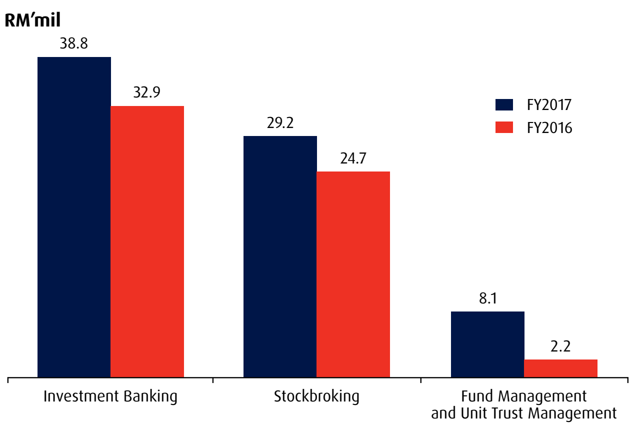
Management Discussion & Analysis

GROUP PERFORMANCE REVIEW (CONTINUED)

Revenue by Business Segment



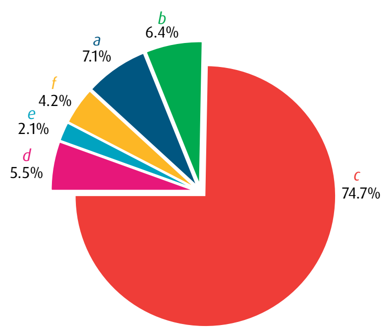
PBT by Business Segment



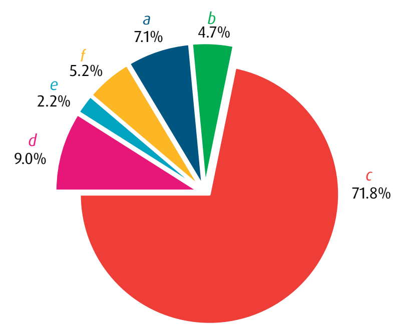
Simplified Group Statement of Financial Position

The Group's balance sheet position remains strong in FY2017 with the increase in total assets well matched by its higher total liabilities.

Total Assets as at 30 June 2017

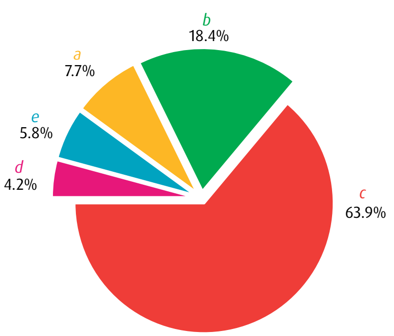


Total Assets as at 30 June 2016

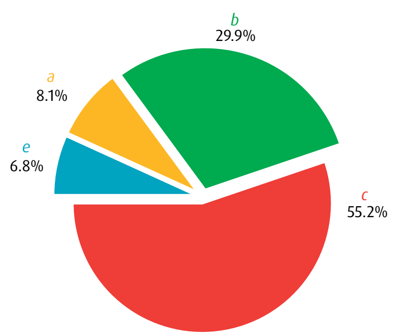


a Cash and short-term funds (including securities purchased under resale agreements)
b Clients' and brokers' balance
c Investment in securities
d Loans and advances
e Deferred tax assets
f Other assets

Total Liabilities as at 30 June 2017



Total Liabilities as at 30 June 2016



a Clients' and brokers' balance
b Deposits from customers
c Deposits and placements of banks and other financial institutions
d Obligations on securities sold under repurchase agreement
e Other Liabilities

Kindly refer to Page 4 for the summary of the Group's five years financial highlights.

Further details on the Group's performance review are analysed under the Segmental Review.

Management Discussion & Analysis

SEGMENTAL REVIEW

INVESTMENT BANKING ("IB") DIVISION

There are three business pillars within the Investment Banking Division namely Debt Markets, Equity Markets and Treasury and Markets that offer a wide range of activities which include arranging and managing debt and equity fund raising and other corporate-related advisory work. The Investment Banking Division also offers debt and equity underwriting, deposit taking, treasury related solutions as well as trading and distribution services.

Core activities of IB Division

Debt Markets
Arranging and managing debt fund raising, such as corporate bonds and Sukuk issuance and syndicated loans as well as placement and underwriting of the debt instruments by undertaking the role of Principal Advisor, Lead Arranger and Lead Manager.

The team also offers agency services by undertaking the role of facility agent and/or security agent for the debt products.

Equity Markets
Advising on mergers and acquisitions, independent advisory, arranging and managing equity fund raising, such as initial public offerings, right issues, restricted issues, special issues and private placements as well as underwriting of equity.

Treasury and Markets
Deposit taking, trading and investment of short term money market investments, fixed income and interest rate instruments. The team also provides treasury-related solutions such as providing interest rate and foreign exchange hedging as well as pricing and distribution of primary bonds.

Financial highlights

	FY2017 RM000	FY2016 RM000
Interest income	**28,785**	24,721
Fee income	**42,704**	40,109
Other income	**12,598**	5,967
Total revenue	**84,087**	70,797
PBT	**38,755**	32,920

In FY2017, the IB Division of HLIB also recorded a higher revenue of RM84.1 million (FY2016: RM70.8 million) and a PBT of RM38.8 million for FY2017; a 17.7% increase compared to previous year's PBT of RM32.9 million on the back of improving market conditions induced by rising market activities.

Treasury and Markets contributed 41.9% of the total revenue of the IB Division in FY2017, representing the highest revenue contributor to the IB Division. This was followed by Debt Markets at 32.1% in FY2017. The higher revenue generated by Treasury & Markets is mainly due to better trading performance and higher net interest income. In particular, trading revenue is 59.1% higher year-on-year driven by our bond trading activities. While the credit and gapping spread will likely remain low going into the current financial year, we will continues to seek out trading and investment opportunity, in particular, mispriced securities. In addition, we would also continue to manage our funding cost to generate consistent gapping income.

The fee income generated from Debt Markets in FY2017 has dropped slightly as compared to the previous financial year mainly due to some delays encountered in the completion of a few key mandates.

In FY2017, Equity Markets delivered commendable results registering a 52.3% revenue growth from RM11.7 million in previous financial year to RM17.9 million in FY2017. Operating within such a competitive market environment, we continue to leverage on our structuring and execution expertise to develop innovative advisory solutions for our clients. Overall revenue of Equity Markets in FY2017 also benefitted from higher capital market activities which saw a sharp rise in underwriting fee income, while advisory fee income slipped marginally with lower level of corporate transactions.

Management Discussion & Analysis

SEGMENTAL REVIEW (CONTINUED)

INVESTMENT BANKING ("IB") DIVISION (CONTINUED)

Financial highlights (continued)

Looking ahead, we will continue to invest in our advisory and equity raising capabilities to grow our pipeline of business, while remaining mindful of market volatility. Equity Markets has structured and executed a number of noteworthy deals to showcase its ability to innovate and help clients to achieve their goals.

Achievements and awards

The IB teams have successfully won various league table achievements and awards throughout the financial year.

League Table Achievements

(A) Bond Pricing Agency Malaysia Top Lead Arranger League Table

Full Year 2016	1H- Year 2017
• Ranked **5th** for conventional PDS by amount issued	• Ranked **5th** for conventional PDS by amount issued
• Ranked **7th** for conventional PDS by number of issues	• Ranked **8th** for conventional PDS by number of issues
• Ranked **6th** for Sukuk by number of issues	• Ranked **7th** for Sukuk by number of issues
• Ranked **6th** for all PDS by amount issued	• Ranked **7th** for all PDS by amount issued
• Ranked **6th** for all PDS by number of issues	• Ranked **7th** for all PDS by number of issues

(B) Rating Agency Malaysia Top Lead Manager League Table

Full Year 2016
• Ranked **2nd** for PDS and Sukuk by number of issues
• Ranked **9th** for PDS and Sukuk by programme value
• Ranked **2nd** for Sukuk by number of issues
• Ranked **9th** for Sukuk by programme value

(C) International Financial Review Asia

Full Year 2016	1H- Year 2017
• Ranked **8th** on top Bookrunner for Malaysia Ringgit Bonds	• Ranked **6th** on top Bookrunner for Malaysian Ringgit Bonds
• Ranked **9th** on Malaysia Global Equity and Equity-Related	• Ranked **8th** on Malaysia Global Equity and Equity-Related

(D) Bloomberg

Full Year 2016	1H- Year 2017
• Ranked **7th** as Manager on Malaysia Ringgit Islamic Bonds	• Ranked **4th** as Manager on Malaysia Equity and Rights Offerings
• Ranked **7th** as Manager on Malaysia Debt	• Ranked **6th** as Manager on Malaysia Ringgit Islamic Bonds
• Ranked **11th** as Manager on Malaysia Equity and Rights Offerings	• Ranked **7th** as Manager on Malaysia Debt

(E) Dealogic

Full Year 2016	1H- Year 2017
• Ranked **7th** on Malaysia Ringgit Debt Bookrunner	• Ranked **6th** on Malaysia Ringgit Debt Bookrunner

Management Discussion & Analysis

SEGMENTAL REVIEW (CONTINUED)

INVESTMENT BANKING ("IB") DIVISION (CONTINUED)

Awards For Deal Innovation and Top Lead Manager

As Sole Principal Advisor/Sole Lead Arranger/Sole Lead Manager

- KLIFF Islamic Finance Award 2016 – The Most Outstanding ABS Sukuk Product

As Joint Principal Advisor/Joint Lead Arranger/Sole Lead Manager/Joint Lead Manager

- Alpha Southeast Asia Deal & Solution Awards 2016 – Best Murabahah Deal of the Year in Southeast Asia
- Islamic Finance News Awards 2016 – Commodity Murabahah Deal of the Year

As Principal Advisor/Lead Arranger/Joint Global Coordinator/Lead Underwriter/Joint Underwriter

- The Asset Triple A Country Awards 2016 – Best Rights Issue of the Year

As Top Lead Manager

- RAM League Award 2016: Lead Manager Award 2016 by Number of Issue - Joint 2nd Ranking
- RAM League Award 2016: Lead Manager Award (Sukuk) 2016 by Number of Issues – Joint 2nd Ranking

Outlook and Moving Forward

One of the latest initiatives implemented by the Securities Commission of Malaysia to further develop the capital markets is to allow unrated corporate bonds & Sukuk to be tradable. The removal of mandatory credit rating is expected to attract more capital raising via the debt capital markets by way of lower issuance costs in terms of rating fees and shorter time-to-market. This trend was evidenced by the higher total gross issuance in 1H2017 at RM54.8 billion vis-à-vis RM37.8 billion in 1H2016 with higher gross issuances in the unrated segment (1H2017: RM28.3 billion; 1H2016: RM17.4 billion). Riding on this positive development, the Debt Markets team will continue to leverage on its strength in product innovation to grow its market share and to play a vital role in promoting the capital markets of Malaysia.

For Equity Markets, we will continue with our strategy to focus on advisory and equity raising as we strengthen our banking franchise. We hope to further leverage on our wide banking network to drive more deal flows and transactions for the Equity Markets Division. We take cognizance that our continued ability to compete in our business is, more than ever, dependent on the talents and efforts of our employees. With that in mind, we will continue to invest in our people's capabilities to support our strategy of delivering a comprehensive suite of Equity Markets services to help clients succeed.

Fixed income market is expected to be challenging in FY2018 given the global market uncertainty and geopolitical risk as well as the rising yield environment. In the Malaysian Ringgit corporate bond market, we expect the primary market to be dominated by government led issuances.

Despite the challenging market conditions and operating environment, emphasis will continue to be placed on the offering of innovative financing solutions which has been the foundation of growth for HLIB since its inception in Year 2009. Moving forward, resources will be channeled towards further widening our deals origination universe and to strengthen the distribution and placement capability for the Group to compete vigorously in the market.

Management Discussion & Analysis

SEGMENTAL REVIEW (CONTINUED)

STOCKBROKING DIVISION

The Stockbroking Division of HLIB provides the complete range of retail and institutional stockbroking services, equity research, margin financing, nominees and custody services as well as futures and option broking services. These services are provided through a network of 3 branches and 6 Hong Leong Bank hubs in Malaysia.

Core activities of Stockbroking Division

Our Stockbroking business is carried out via our Institutional Sales and Retail Business teams. The Institutional Sales desk focuses on providing quality research, advisory and trade execution ideas for our institutional clients while our Retail Business team offers equity, futures and option broking services including the provision of margin financing and customer service support on technical and corporate action to individual clients. Our Broking team also provides nominees and custody services to support and complement our primary businesses.

Trading activities were dominated by local and foreign institutions which represented 45.9% and 22.9% respectively, whilst the retail segment remains at 17.9% of the market in FY2017. Compared to FY2016, the daily average value increased by 11.1% to RM2.3 billion boosted by global market recovery and improved local retail sentiment with plans to promote small and mid-cap stocks supported by dedicated research.

Financial highlights

	FY2017 RM000	FY2016 RM000
Total revenue	79,597	74,053
PBT	29,226	24,728

The stockbroking business of HLIB recorded a higher revenue of RM79.6 million (FY2016: RM74.0 million) and a PBT of RM29.2 million; an 18.2% increase as compared to the previous year's PBT of RM24.7 million. For FY2017, trade volumes on Bursa Malaysia were higher at RM554.4 billion compared to RM507.4 billion recorded in FY2016, an increase of 9.3%. Correspondingly, HLIB also recorded higher traded volumes of RM46.6 billion in FY2017 compared to RM40.0 billion in FY2016, an increase of 16.5% which outperformed the increase in Bursa volume.

Our Retail Business remains as the main revenue contributor in the Stockbroking Division for both FY2017 and FY2016 which represented 50.9% and 54.5% respectively followed by our Institutional Business. The total net brokerage income for both Retail Business and Institutional Sales recorded an overall increase of 12.4% from the previous financial year due to higher market share of 4.2% in FY2017 as compared to 3.9% market share in FY2016. Our margin income charted marginal increase due to higher drawdown of margin facilities during FY2017 which has contributed to the higher revenue in the current financial year.

Achievements and awards

HLIB was named the 2nd runner up for Best Retail Equities Participation Organization – Investment Bank in the Bursa Excellence Award 2016.

Outlook and Moving Forward

The Bank will continue with its efforts to drive and scale up our ranking with our Institutional clients. In addition, there are also initiatives to complement our client base, leveraging on our newly set up Islamic Trading platform.

As for the Retail Business, the Bank aspires to retain our leadership position in Malaysia with eBroking being our main focus. The Bank will continue with our efforts to strengthen our brand image as a valued broker via tailored product offerings and build value research. Digital initiatives will be continuously refreshed to sustain customer experience for our online business.

Overall, the Stockbroking business will remain challenging due to the volatile and cautious market sentiment and uncertain commodity price trend. The stiff competition in the retail broking segment with the introduction of new online foreign trading platform will put further pressure on brokerage rates.

Management Discussion & Analysis

SEGMENTAL REVIEW (CONTINUED)

FUND MANAGEMENT AND UNIT TRUST MANAGEMENT DIVISION

HLAM offers and manages a broad spectrum of investment solutions in equities, fixed income, money market and mixed assets across segregated assets and unit trust funds for, amongst others, state governments, insurance companies, endowments, family offices, corporations, and high net worth individuals.

Core activities of Fund Management and Unit Trust Management Division

Our fund management activities are operated under HLAM, a wholly owned subsidiary of HLCB. The business is operated under three main business pillars outlined as below:

Investment
Managing a broad spectrum of investment portfolios through equities, fixed income, money market and mixed assets.

Product
Design innovative product solutions to a broad range of private mandate and retail clientele and tailor made investment portfolios based on the risk scale ranging from cautious to dynamic.

Distribution
Distribute and promote a range of products and investment solutions for private mandate and retail clientele and to build principle relationship by introducing investment solution to catering to clients' risk preferences and return requirements.

Financial Highlights

	FY2017 RM000	FY2016 RM000
Total revenue	**27,778**	21,360
PBT	**8,079**	2,243

HLAM recorded a significant increase in PBT of 260.2%, at RM8.1 million in FY2017 from RM2.2 million in the previous financial year. The total revenue recorded for FY2017 has also increase by 30.0%, at RM27.8 million from RM21.4 million in FY2016. The higher revenue achieved is mainly contributed by the increase in management and performance fees in FY2017 by 28.2% as compared to FY2016, mainly attributed to the steady growth in the total fund size under management during the financial year. The growth in fund size was generally contributed by increased sales in equity, fixed income and money market products. In particular, the equity unit trust funds' charted healthy sales assisted by strong investment performance of our Hong Leong Penny Stock Fund, Hong Leong Dividend Fund and Hong Leong Consumer Products Sector Fund. Growth also came from continuous marketing of the our newly launched Hong Leong SEA-5 Equity Fund.

Achievements and awards

The Fund Management and Unit Trust Management team have successfully won the following awards throughout the financial year:

The Edge / Thomson Reuters Lipper Malaysia Fund Awards 2017:
- Group Award:
  Best Equity Award – Malaysia Provident – Hong Leong Asset Management Bhd
- Individual Award:
  Best Equity Malaysia – Malaysia Provident, 3 Years – Hong Leong Penny Stock Fund

Management Discussion & Analysis

SEGMENTAL REVIEW (CONTINUED)

FUND MANAGEMENT AND UNIT TRUST MANAGEMENT DIVISION (CONTINUED)

Outlook and Moving Forward

We foresee the Malaysian economy to maintain its recovery momentum in 2017 after registering a decent growth of 5.7% in 1H2017. This is further supported by improved global economic growth from which Malaysia will stand to benefit. Our country will continue to see positive contribution from exports and continued private investment activities mainly driven by infrastructure spending. Against this positive backdrop, we anticipate more capital inflows into the capital market for the rest of Year 2017.

HLAM will continue to work towards delivering consistent and strong fund performance. Over the past 3 years, most of our funds have outperformed their respective benchmarks. HLAM believes that superior investment performance is the driver of growth for existing and new business.

HLAM will continue to launch products and services to meet investors' demand for retail and wholesale funds and will also be launching its second series of Hong Leong Strategic Opportunity Fund II, a closed-end fund in July 2017. HLAM will also be focusing on building the asset under management, tapping into Hong Leong Group's resources such as the bank and insurance distribution channels.

To support the Group's initiatives on digitalization, on-going efforts will be put in place to improve digitalization of our business operations. HLAM is working towards increasing our digital offering by FY2018.

The fund management business will continue to grow through continued sales and marketing efforts and focus on delivering strong fund performance in FY2018. HLAM is constantly monitoring market demand and investors' appetite, and will launch appropriate funds at opportune times. Sales and marketing efforts are ongoing to strengthen our branding and presence through customer events and roadshows.

CORPORATE HIGHLIGHTS

Capital Structure and Borrowings

HLIB has on 6 November 2014 completed the first issuance of RM50.0 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50.0 million Sub-Notes will mature in Year 2024 and is callable on any coupon payment falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The Sub-Notes qualifies as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLIB.

Other than the Sub-Notes issued, HLCB group does not have any other borrowings as at 30 June 2017.

Liquidity and Capital Ratios

HLIB's capital ratios remain adequate with common equity Tier 1 ("CET 1") capital ratio and Tier 1 capital ratio of 25.398% and total capital ratio of 29.566% as at 30 June 2017. The Bank's liquidity coverage ratio is well above the minimum requirement set by Bank Negara Malaysia ("BNM") of 80%, which stood at a healthy level of 111.40% as at 30 June 2017.

Sustainability Statement

In October 2015, Bursa Malaysia launched a new Sustainability Framework, comprising amendments to the Listing Requirements, which requires listed issuer to include in its annual report, a Sustainability Statement which covers the narrative statement of the listed issuer's management of material economic, environmental and social risks and opportunities.

The amendments to the Listing Requirements will take effect on a staggered basis over three years, starting from 31 December 2016 to 31 December 2018. Listed issuer with a market capitalisation of over RM2.0 billion will be required to disclose their Sustainability Statement in annual report issued for the financial year ending on or after 31 December 2016.

In supporting the initiatives of Bursa Malaysia, HLCB, being a listed issuer with market capitalisation over RM2.0 billion, is pleased to present its first Sustainability Statement in its Annual Report FY2017.

Kindly refer to page 23 to 37 for the Sustainability Statement.

Management Discussion & Analysis

OVERALL ECONOMIC REVIEW AND OUTLOOK OF THE GROUP

Despite a recovery in economic growth throughout FY2017, outlook for FY2018 remains challenging as investor sentiment remains susceptible to global economic uncertainties. External developments such as imminent removal of monetary accommodation by major central banks could lead to abrupt changes in global fund flows and currency movement which will impact our domestic markets.

The regulatory landscape in the region has changed tremendously in recent years resulting the increase in regulatory requirements and scrutiny for financial institutions and this will continue to remain as one of the challenges for HLCB Group going forward. We will continue to explore on technological solutions and develop a digital strategy that maintains agility and awareness.

Embracing digital technology remains one of the focuses of the Group. The pace of businesses today has changed due to the accelerating advances in technology. The Group will continue in thriving in the digital world by focusing on providing our clients constant flexibility and high quality experiences. Understanding client's needs is extremely crucial to the sustainability of our Group. Furthermore, for the Group to continue to grow and evolve in the decades to come, we believe in empowering our people to innovate and deliver the best value to our clients as well as the workplace.

APPRECIATION

Last but not least, we would like to take this opportunity to express our gratitude to the board of Directors for their support and guidance, the management, colleagues and staff throughout the HLCB Group for their dedication and commitment.

Our sincere appreciation also goes out to the regulators, shareholders, customers and business partners as well as to the community we serve for their continued faith and confidence in the Group.

Sustainability Report

OUR SUSTAINABILITY APPROACH

ABOUT THIS REPORT

This is HLCB's first Sustainability Report ("the Report"), covering our financial year from 1 July 2016 to 30 June 2017 ("FY2017"). The Report has been produced with the objective to provide clear insights into the actions and approaches to business management, taking into consideration the economic, environmental and social risks and opportunities ("sustainability matters") alongside financial implication for our stakeholders.

Our Sustainability Report has been prepared in accordance with the Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements relating to sustainability report and guided by the Sustainability Reporting Guideline which outlines the sustainability reporting disclosure requirements issued by Bursa Malaysia.

Nine matters have been determined to be important to both our business and stakeholders via a materiality analysis and have been presented under three main pillars of sustainability namely the Economic, Environmental and Social. The process of the identification of our materiality matters are described in page 25.

HONG LEONG CAPITAL GROUP

Our Material Matters

Economic	**Environmental**	**Social**
Innovation	Managing the Environmental Footprint	Fair Banking Ethics and Intergrity Clients Experience Compliance Cyber Security and Data Privacy Employee Experience Impact Investing

Reporting scope: All data in this report relate to all our operations in Malaysia.

The Values of Hong Leong Group

The Group is built on a strong heritage of value creation for our stakeholders and communities within which we operate. Over the years, we have taken a progressive approach in integrating sustainability into our businesses towards a stronger and more resilient group. We firmly believe that the core values form its foundation and framework. Its values build its character; they are the binding cord that holds its people together, the driving force towards successful accomplishment of the Group's Vision.

Honour	To conduct business with honour.
Human Resources	To enhance the quality of human resources – as the essence of management excellence.
Entrepreneurship	To pursue management vision and foster entrepreneurship.
Innovation	To nurture and be committed to innovation.
Quality	To consistently provide goods and services of the highest quality at competitive prices.
Progress	To continuously improve existing operations and to position for expansion and new opportunities.
Unity	To ensure oneness in purpose, harmony and friendship in the pursuit of prosperity for all.
Social responsibility	To create wealth for the betterment of society.

Sustainability Report

OUR SUSTAINABILITY APPROACH (CONTINUED)

HOW OUR SUSTAINABILITY IS GOVERNED

Sustainability at HLCB is driven by the highest level within the organisation: our Board of Directors. Our Directors and especially those in the Board Audit and Risk Management Committee ("BARMC") oversee our sustainability actions and policies, ensuring these are in line with our corporate values and ultimately support our business goals and vision. At the working level, we have a Sustainability Working Committee with members from various divisions. This committee is chaired by a member of the Sustainability Steering Committee which comprises senior members of management. The Sustainability Working Committee will communicate via in-person meetings and emails wherever necessary.

HLCB Sustainability Reporting Governance Structure FY2017

Board of Directors ← Board Audit and Risk Management Committee ("BARMC")

↑

Sustainability Steering Committee
(Chaired by Group Operating Officer of HLCB)

Debt Markets
Equity Markets
Treasury & Markets
Stockbroking
Risk Management
Compliance
Finance
Human Resource
Hong leong Asset Management Berhad ("HLAM")

↑

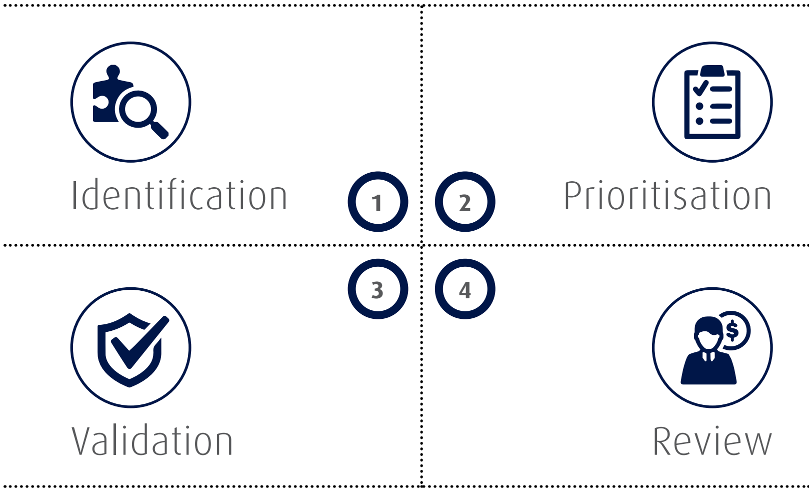
Sustainability Working Committee

Sustainability Report

OUR SUSTAINABILITY APPROACH (CONTINUED)

HOW THE MATERIAL SUSTAINABILITY MATTERS ARE IDENTIFIED

In order to present a report that is meaningful to our stakeholders, we conducted a materiality assessment to determine those matters that are important to both the Group itself as well as our stakeholders. The assessment comprises four steps:



1. IDENTIFICATION

We collated preliminary matters which we believed could be material to our business and our stakeholders through an analysis of matters that have been reported by Hong Leong Financial Group ("HLFG"), our holding company as well as by looking into industry best practice. We then conducted interviews with three members of the Sustainability Steering Committee including the Group Chief Operating Officer, the Chief Financial Officer and the Chief Risk Officer. We have also conducted interviews with the Group Chief Financial Officer of our holding company and to validate those matters and concerns that are material to HLCB Group. Through these interviews, we were able to finalise key matters, opportunities and challenges facing the Group.

2. PRIORITISATION

From the list of matters that had been identified as being material, the prioritisation of the matters is based on the importance of each matters to the business and stakeholders. At the end of this step, a materiality matrix was plotted indicating the relative importance of each issue to the Group and our stakeholders.

3. VALIDATION

The materiality matrix was then presented to the Sustainability Steering Committee including our Group Chief Operating Officer and BARMC, all of whom validated the findings. The materiality matrix was subsequently highlighted by our BARMC to the Board of Directors for their concurrence.

4. REVIEW

This final step encompasses feedback from our stakeholders as we believe each and every feedback is valuable to the Group. From the feedback, we will be able to further refine and enhance our sustainability approach so as to create a better sustainable growth to the Group.

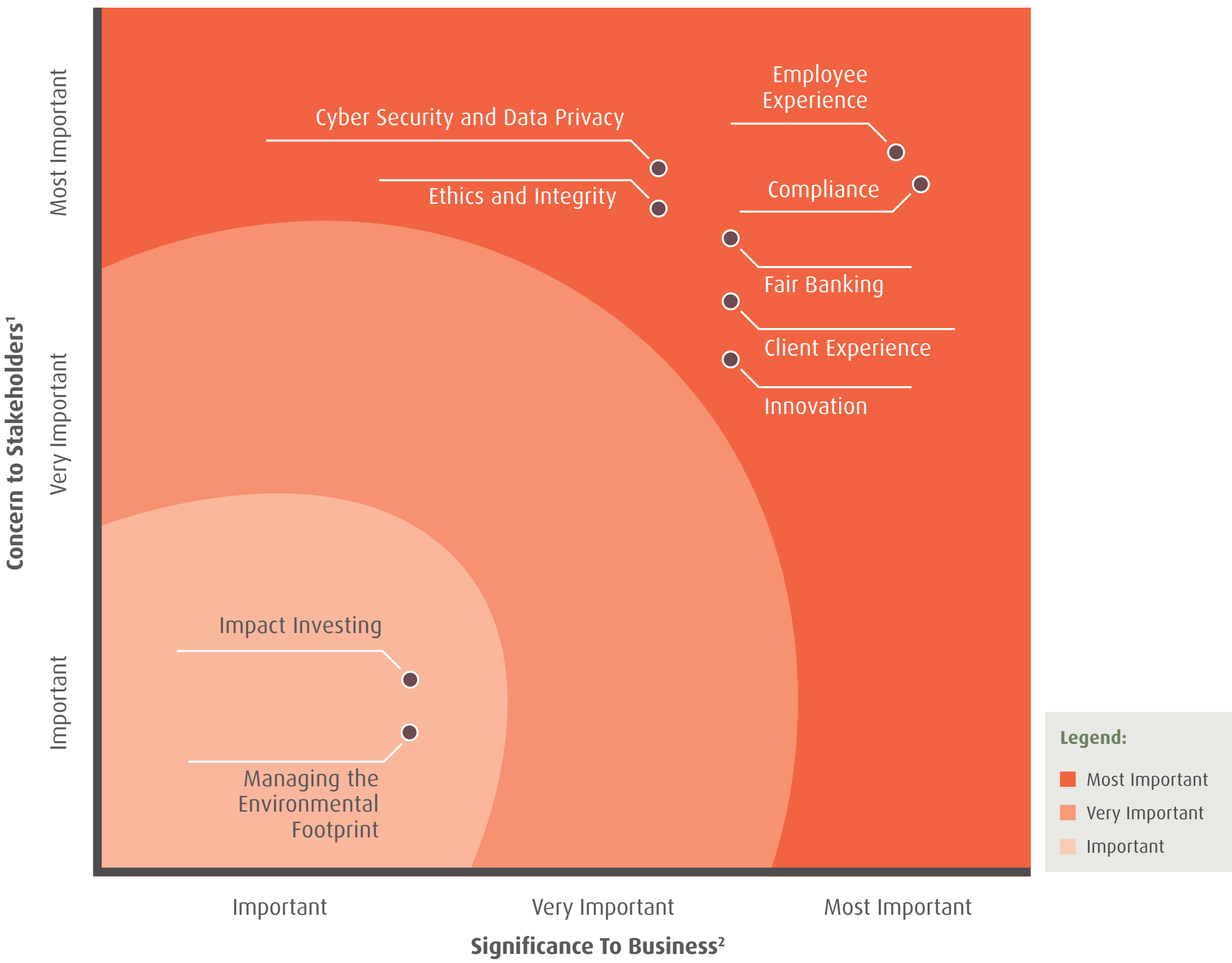
Sustainability Report

OUR SUSTAINABILITY APPROACH (CONTINUED)

OUR MATERIALITY MATRIX

Material Issues Identified

Economic	Innovation
Environmental	Managing Environmental Footprint
Social	Fair Banking Ethics and Integrity Client Experience Compliance Cyber Security and Data Privacy Employee Experience Impact Investing



[1] "Concern to stakeholders" is defined as the importance of sustainability matters to the stakeholders
[2] "Significance to Business" is defined as the importance of the sustainability matters to the businesses of HLCB Group

Sustainability Report

OUR SUSTAINABILITY APPROACH (CONTINUED)

ABOUT OUR MATERIAL MATTERS

Material Matters	Definition of Material Matters
Innovation	Innovation is one of our key competitive drivers in creating business value for the Group. We constantly evolve with market conditions to bring innovative solutions to meet the changing needs and objectives of our clients.
Managing the Environmental Footprint	We endeavor to improve the sustainability of the business by reducing its impact on the environment and preserving natural resources while saving cost.
Fair Banking	We adopt a high standard of care to ensure our clients receive products and services that meet their needs and improve their financial well-being, as our focus towards creating a sustainable value to the Group.
Ethics and Integrity	We expect our employees to adhere to the values, principles, standards and norms of behavior as outlined in the Code of Conduct as well as the Standard of Operating Policies and Procedures of the respective departments.
Client Experience	Active engagements with our clients enable us to identify financing gaps and structure solutions according to client's need while delivering services that build trust. Continuous client engagements also provide us with first hand updates and insights on our clients' business and operating environment allowing us to quickly address any adverse effects or concerns in our operating environment.
Compliance	Compliance to local regulations and other core operational regulations (e.g. Companies Commission of Malaysia ("CCM"), Bursa Malaysia and Bank Negara Malaysia ("BNM") regulations, Personal Data Protection Act, Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act ("AMLA"), etc.) helps to show the ability of management to ensure that operations conform to certain performance parameters. We are striving towards zero breaches of regulatory requirements.
Cyber Security and Data Privacy	We strive to protect the confidentiality of the information of our clients, business counterparts and any other parties by taking various measures and procedures in maintaining appropriate physical, electronic and procedural safeguards to meet the requirements under the Personal Data Protection Act and Personal Data Protection Code of Practice for the Banking and Financial Sector.
Employee Experience	We aim to build a competitive, engaged, knowledgeable and professional workforce. We inspire to cultivate high performing teams to drive and deliver world-class business outcomes.
Impact Investing	We recognize that our lending and investing practices have a significant impact on the environment and society and strive to promote sustainable development in our policies.

Sustainability Report

ECONOMIC

Innovation

Innovation is one of the key competitive drivers in creating business value as well as a key success factor for the Group to progress further in the competitive market place. We constantly evolve with market conditions to bring innovative solutions to meet the changing needs and objectives of our clients. The Group also works closely with Group Information Technology and vendors to meet the needs of our clients in order to ensure clients satisfaction and retention.

The Group encourages innovation in every level of our business: people, process, products and services. Our employees are trained to keep abreast of the trends and developments in the investment banking industry with the aim to provide innovative tailor-made solutions that meet our client's needs. We innovate to improve our processes and procedures in line with the advancement of the digital trends in order to provide prompt response and bring more convenience to our clients. Hong Leong Investment Bank Berhad ("HLIB") as an award winning financial solutions provider, is constantly evolving with the ever changing market conditions to bring innovative solutions to meet the prevailing needs and objectives of our clients.

Throughout the years, there are various innovated initiatives carried out by the two main subsidiaries of HLCB, namely HLIB and HLAM. HLIB was the first Investment Bank in Malaysia to list a Special Purpose Acquisition Company ("SPAC") on the Main Market of Bursa Malaysia in mid-2011. Since then, we have gone on to list three out of the five SPACs listed on Bursa Malaysia. Apart from that, our Debt Markets of HLIB is the arranger for the issuance of in excess of RM1.5 billion of Ringgit Malaysia Convertible Bonds for Malaysian public listed companies since Year 2011 and had also jointly arranged the first Tier 2 Bond Programme for an insurance company in June 2012. Our Investment Banking division adopted a more client-centric approach to create differentiated client value propositions that address specific needs of the clients as well as focuses on developing niche or distinctive capabilities in a chosen industry.

As the digital technologies become more advanced, the Retail Business in our Stockbroking Division is compelled to embrace new way of doing business which provides greater flexibility to the clients by introducing various digital value added services throughout FY2017. One of the many initiatives is the introduction of the push notifications on corporate action and portfolio announcements via mobile phones to ensure greater accessibility to the information. This new feature is targeted to be rolled out by end of Year 2017. Another innovated idea under the pipeline is the introduction of the Virtual Trading Portfolio which targeted to be launched by end of Year 2017 as well. The objective of bringing the Virtual Trading Portfolio to the clients is to enable clients to monitor the performance and the share prices of the portfolio of stocks recommended by our Research analysts via our e-Broking website or mobile application.

Apart from digital innovation, equipping our clients with sound knowledge on various sectors of the industry remains one of our focus areas. There have been a number of programs rolled out throughout FY2017 such as collaborating with Bursa Malaysia in organising seminars or talks which focus on different sectors offered to the corporate clients. The program is held half yearly and each program focus on different sectors and subject to investors' favorite themes with the expectation to garner interest from institutional investors who seek to be ahead of the curve by identifying potential investment trends, as well as potential stocks that will be the greatest beneficiaries of demographic trends. Thus far, four series of events have been rolled out and relevant topics or trends will vary in order to necessitate the market needs. The four conducted events are:

- Bursa – HLIB Stratum Focus Series 1: Seminar focusing on healthcare sector
- Bursa – HLIB Stratum Focus Series 2: Malaysia Energy Sector
- Bursa – HLIB Stratum Focus Series 3: Fintech-Challenging the Status Quo
- Bursa – HLIB Stratum Focus Series 4: E-Commerce, Reinventing Retailing

Sustainability Report

ECONOMIC (CONTINUED)

Innovation (continued)

Apart from the above, HLIB also has been actively collaborating with various parties and engaged external professionals such as McKinsey & Company to jointly conduct events, seminars and workshops. Amongst the workshops conducted are the Toll Concession Financing Market Outlook, Trends Introduction to Business Model and Valuation Methodology. Besides, clients are also being offered to events and conferences organised by government agencies to better understand the policies and industries updates.

HLIB has also been engaged with government authorities i.e. Malaysian Investment Development Authority ("MIDA"), Ministry of International Trade and Industry ("MITI"), Malaysia External Trade Development Corporation ("MATRADE"), BNM and Malaysia Gas Association to fulfill clients' demands to cater for sectoral and specific industry outlook and beyond. HLIB joined the Malaysia Gas Association as a member to offer our clients a different level of service and enhance the outside-the-box thinking of our teams. Through our membership, HLIB is able to receive first hand news and findings in regards to the industry and through that, our clients are able to have direct access to their exclusive workshop. This gives us a value added advantage over our peers in providing opportunity for access to industry players.

Additionally, HLIB also organised overseas visits and conferences in Indonesia and Singapore during FY2017, to acquire in-depth analysis of the ASEAN market, the opportunities and challenges in respective industries, and to gauge market trends and outlook in the future. The visits and conferences are offered to clients, fund managers and assets managers, including analysts to enhance their knowledge in specific sectors and industry.

ENVIRONMENTAL

Managing the Environmental Footprint

We endeavor to improve the sustainability of the business by reducing its impact on the environment and preserving natural resources while saving cost. We believe that by managing our environmental footprint we can support the business efficiently, operationally and financially.

We have embarked on an initiative together with our holding company, HLFG to produce our Annual Report for the FY2016 using recycled and Forestry Stewardship Council - certified paper. We have also significantly reduced the number of full Annual Reports produced last year and replaced with an abridged Annual Report with the objective to reduce paper consumption. Apart from that, monitoring of the volume of printings by each department has been put in place. Alerts will be sent to the respective departments if the volumes of the printings are considered high.

On energy consumption, we do not currently measure and monitor the electricity consumption and fuel consumption from the Group's company owned vehicles in kilowatt-hours (kWh) and Joules respectively but we measure the usage in ringgit value. We consistently promote energy conservation within the organisation by sending email reminders to all employees to switch off the lights and air-conditioning before leaving the offices. With continuous efforts on energy conservation, we have successfully reduced the energy consumption by 7% (in value) in FY2017 as compared to the last financial year.

Energy consumption of the Group for FY2016 and FY2017:

	2016	2017
	RM'000	RM'000
Fuel consumption	33	37
Electricity consumption	618	565
Total energy consumption	**651**	**602**

We will put in place the procedures to collect the energy consumption data in kWh and Joules going forward in order to improve our monitoring approach.

We are of the view that even though financial institutions might not have significant direct impact on the environment, we believe that every little contribution and effort helps improve the environment footprint over the long-term. Hence, we will continue to contribute in every way we could and operate in an environmentally sustainable manner with the aim to build a healthier and better environment for tomorrow.

Sustainability Report

SOCIAL

Fair Banking

We are committed in conducting business with honor and fairness by delivering services of the highest quality at reasonable prices for our clients. In sustaining such a commitment, all employees are guided by the Hong Leong Group including the Group's corporate mission and code of ethics adopted from regulations and best practices such as BNM's Code of Ethics and Code of Conduct for Malaysia Wholesale Financial Markets, and all other policies set out by Securities Commission Malaysia, Bursa Malaysia and BNM. The code of ethics and best practices covers, amongst others conflict of interest, insider dealing, misuse of position and information, market manipulation, confidentiality of communication and transactions as well as fair and equitable treatment including anti-bribery. Hence, all employees of the Group should never take unfair advantage of anyone through manipulation, concealment, abuse of confidential information, misrepresentation of material facts, or any other unfair-dealing practice. Our Compliance team plays an important role in ensuring the adherence of all employees to the relevant code of conducts and policies and procedures.

In addition to governance by the regulators, all employees are required to sign and abide by an internal Code of Conduct upon commencement of employment. In addition, employees must also abide by the department specific code of conduct that is embedded in the Standard Operating Policies and Procedures. There is also an informal internal code of conduct that emphasized on integrity and honesty which are always upheld by our team in carrying out their duties in all areas.

All deals are executed according to clients' specifications and allocation and no favoritism is practiced. The scope of work, pricing or fees, terms and conditions and any risk associated with the deals are transparently set out to the clients in written documents and are always mutually agreed between both parties.

Adopting high standard of care to ensure our customers receive products and services that meet their needs and improve their financial well-being is our focus towards creating a sustainable value to the Group.

Ethics and Integrity

We are committed to serve our clients and operating ethically with high integrity in helping our clients improve their financial well-being as well as building a trusted reputation with our stakeholders.

All our employees are required to sign the Code of Conduct and Ethics upon commencement of employment and a copy is given to the employees for their reference. All employees are expected to adhere to the values, principles, standards and norms of behavior as outlined in the Code of Conduct as well as the Standard of Operating Policies and Procedures of the respective departments. The Group's Code of Conduct and Ethics also provides guidance on the policy on entertainment and gifts to address risk related to corruption and ensure fair dissemination of business or research information.

Client Experience

Active engagements with our clients enable us to identify financing gaps and structure solutions according to client's need while delivering services that build trust. Continuous client engagements also provide us with first hand updates and insights on clients business and operating environment allowing us to quickly address any adverse effects of strains in our clients' operating environment. A positive client experience is at utmost important to contribute to the branding and the sustainability of the Group. The rapid pace of digitisation has also changed the expectation of our clients.

Throughout FY2017, our Asset Desk of our Stockbroking Division has been actively installing the front line trading programs which facilitate clients' trades' execution and consolidation of all trades executed during the day to ease the day end reporting purposes with the objective to enhance clients experience with us.

Sustainability Report

SOCIAL (CONTINUED)

Client Experience (continued)

Generally, allocation of businesses to the Group is very much dependent on clients' satisfaction from all aspects including the type of services offered, value added services such as programs in enhancing clients' knowledge, research ideas and efficiencies and effectiveness of trades' executions. There are different modes of evaluation from different group of clients. Some of the clients perform evaluation by assigning rating to HLIB's services on either quarterly or bi-annually while others are via informal clients' feedback obtained through discussions or during the course of clients' engagement. Thus far, we have not received any formal complaint on the products and services provided to clients which are something that the Group takes pride.

Moving forward, the Group will focus in organising more relevant seminars in collaboration with external parties such as rating agencies or the regulators with the objectives to enhance clients' experience and continue to equip our clients with sound knowledge. The Group will also look into fine tuning the informal feedback approach to be in line with the digital trends to ensure more timely response and to deepen our relationship with our clients.

Compliance

The regulatory landscape in the region has changed tremendously in recent years resulting in increasing regulatory requirements and scrutiny. As a financial institution, we embrace regulatory intent to create sound and secure businesses. To this end, we embed regulatory compliance into the processes and values of our day-to-day operations.

We are striving towards zero breaches of regulatory requirements. In recent years, we have continued to ensure controls are in place in all areas of operations to ensure no breaches occur as well as to enhance our regulatory compliance capacity within the Group. Various

compliance related trainings have been provided to employees of the Group throughout FY2017 such as training on AMLA. The objectives of the AMLA are to create awareness amongst employees on AMLA legislation and regulatory guideline derived from it and to create an understanding on the impact of money laundering and terrorist financing to the Group. Another training conducted was on the Foreign Exchange Administration ("FEA") rules with the aim to equip our employees with the knowledge of FEA rules and understanding the responsibilities of a financial institution in ensuring compliance with FEA rules.

Thus far, HLCB group did not incur fines for non-compliance with laws and regulations concerning the provision and use of products and services during FY2017. We will continue to enhance and improve our Compliance structure and controls as we believe good conduct of the Group will eventually bring the Group towards a more sustainable position in the market.

Cyber Security and Data Privacy

As the Group is operated on a highly regulated environment coupled with the increasing risk of cyber-attack, the Group takes a serious stand in protecting our Information Technology ("IT") networks and the confidentiality of information of clients, business counterparts and any other parties by taking various measures and procedures including maintaining appropriate physical, electronic and procedural safeguards to meet the requirements under the Personal Data Protection Act 2010 ("PDPA") and Personal Data Protection Code of Practice for the Banking and Financial Sector.

The requirements of the PDPA have been put in place and it is a mandatory requirement for all employees to attend internal trainings organised by the Group to ensure our employees are aware of the requirements of PDPA and are constantly reminded of their obligation to maintain the confidentiality and secrecy of the Group's clients' information. We also communicated our Privacy Notice to our customers through various mode of communication, including by posting the Privacy Notice on our website.

Throughout FY2017, there are no significant complaints received pertaining to breaches of customer privacy and losses of customer data.

In relation to our management of cyber security, our Group IT is guided by the Cyber Security Policy which defines the following:

I. The roles and responsibilities of the Board of Directors and management in the oversight and management of cyber risk;
II. Identify the requirement for managing cyber risk; and
III. Highlight the reporting requirements to the regulators.

Sustainability Report

SOCIAL (CONTINUED)

Cyber Security and Data Privacy (continued)

In the event of any security related incidents, the team is guided by the Security Incident Response Procedures which outlines the procedures in implementing proactive measures to reduce the impact of a security related incident and to achieve the following objectives:

I. Systematic response to incident in minimizing or mitigating of loss of confidentially, integrity and availability of mission critical information and systems;
II. Improve turnaround time for escalation of incident and minimize disruption of critical computing services and operations; and
III. Ensure quick and efficient recovery from incidents and ensure all necessary steps to preserve evidence, record, report and incident management are properly being carried out.

There are various initiatives being carried out throughout the years to prevent cyber-attack and enhance cyber security. Amongst the initiatives are installations of antivirus software on the workstations and devices to prevent uninvited threats from emails and external storage or through the network, implementation of file encryption protection on all files retrieved from the workstation, and controls on the accessibility of data retrieved from the workstation. USB port access is not permitted for all desktops and laptops and approval is required for any request of USB port access.

Apart from that, the Group is of the view that equipping employees with adequate knowledge and awareness of cyber security is equally important. Cyber security awareness programs are conducted internally within the Group several times a year to address the rapid and ever-changing data security threat environment. The programs provide the education, monitoring and on-going maintenance of security awareness within the Group. The employees will also be updated regularly on the latest information in regards to security threats via emails.

We will continue to maintain and update our policies, procedures and processes where necessary to protect the security of our assets as we recognise that a breach of information security could expose to the Group to significant damages to our reputation, disruption of operations and financial losses.

Employee Experience

The employees are the key driving force of the Group in achieving its goals. We aim to build a competitive, engaged, knowledgeable and professional workforce. We inspire to cultivate high performing teams to drive and deliver world-class business outcomes by understanding the demand of the workforce.

Demographic of the organisation's work force:

Description	2016	2017
By Category		
Executive	253	256
Manager	130	137
Senior Manager and Head of Department	39	39
Total number of employees	**422**	**432**
By Age Group		
Under 30 years old	100	107
30 – 50 years old	261	256
Over 50 years old	61	69
Total number of employees	**422**	**432**
By Gender		
Female	232	238
Male	190	194
Total number of employees	**422**	**432**

Sustainability Report

SOCIAL (CONTINUED)

Employee Experience (continued)

In 2016, we introduced the HiPo ("High Performance") program as one of our initiatives under our talent management strategy. Our goal is to shape HLCB into a high performing, innovative, passionate and sustainable organisation that strives to achieve its strategic and operational goals. The program aims to build a strong succession pipeline of bright and skilled future leaders, and maintain a high retention rate for the sustainability of the Group's future.

HLCB is an equal opportunities employer and operate on the basis of hiring and nurturing the best talent available irrespective of race, gender or cultural affiliation. The Group has a balance gender representation within the workforce where female represent 55% and male represent 45% of the total workforce. This is a clear indication of our staunch belief in gender equality, based on merit, and of our commitment to provide both men and women the same opportunities for career advancement.

Composition of female and male employees by category:

	2016		2017	
Executive	Number of employees	%	Number of employees	%
Female	152	60%	151	59%
Male	101	40%	105	41%
Total	**253**	**100%**	**256**	**100%**

	2016		2017	
Manager	Number of employees	%	Number of employees	%
Female	66	51%	72	53%
Male	64	49%	65	47%
Total	**130**	**100%**	**137**	**100%**

	2016		2017	
Senior Manager and Head of Department	Number of employees	%	Number of employees	%
Female	14	36%	15	38%
Male	25	64%	24	62%
Total	**39**	**100%**	**39**	**100%**

During FY2017, our Human Resources team has successfully brought in 72 new employees for business expansion and as replacement headcount. The number of new hires has increased by 14.3% from 63 new hires in last financial year.

Total number of new employee hires:

New Hires	2016	2017
By Age Group		
Under 30 years old	43	55
30 – 50 years old	19	17
Over 50 years old	1	–
Total number of new hires	**63**	**72**
By Gender		
Female	36	41
Male	27	31
Total number of new hires	**63**	**72**

SOCIAL (CONTINUED)

Employee Experience (continued)

Training and Education

The fast-changing environment in the finance industry driven by digitisation, technology advancement, and challenging market conditions has impacted the traditional business model. Hence, we target to continue to invest an average of RM2.0 million per year to foster a continuous learning culture to ensure that our workforce remains relevant and competent in facing the dynamic world.

Throughout FY2017, our employees of all levels from executive to head of departments are offered to participate in various additional training and self-development programs. Amongst the trainings provided are:

- ✓ Soft Skills Program
  - Covers leadership and interpersonal skills
- ✓ Functional Skills Program
  - Covers behavior interview, trainings pertaining to Goods and Services Tax ("GST") and Foreign Account Tax Compliance Act ("FATCA") and many more
- ✓ Programs on industry insights
  - Covers business ethics and the introduction of Sukuk principles
- ✓ Computer skills program
  - Covers on enhancing employee skills in Microsoft Excel and Microsoft Word

Average hours of training per year per employee by employee category:

Executive	**2016**	**2017**
Total number of employees	253	256
Total number of training hours provided to employees	1,310	4,176
Average training hours per employee	5.2	16.3
Manager		
Total number of employees	130	137
Total number of training hours provided to employees	813	2,923
Average training hours per employee	6.3	21.3
Senior Manager and Head of Department		
Total number of employees	39	39
Total number of training hours provided to employees	422	1,012
Average training hours per employee	10.8	25.9

A Conducive Working Environment

We constantly strive to provide an engaged and conducive working environment at HLCB. Our yearly team building activities involve all levels of employees to foster trust, collaboration and team bonding. We implemented a short term wellness program called Fit for Life in FY2016 with the aim of promoting healthy lifestyles among employees and at the same time creating a fun and exciting working environment.

Besides, our employees are always supportive and are actively involved in Corporate Social Responsibility programs. In March 2017, we executed a charity project at the Destiny Welfare Centre, Klang. We had spent good quality time bonding with the refugee children, repainting the wall, and constructing a mini library. We witnessed how happiness can be created with just a simple gesture.

Sustainability Report

SOCIAL (CONTINUED)

Employee Experience (continued)

A Conducive Working Environment (continued)

Continuous efforts will be put in place to ensure HLCB is an inclusive workplace. We will continue to support and invest in our employees by providing more training and career development opportunities to help employees grow together with the Group.

Employee Benefits

We ensure that we offer our employees remuneration and benefits packages that are competitive to the market. These include various loan subsidy, medical benefits, annual/maternity/paternity/prolonged illness leave, as well as mobile phone.

Impact Investing

We recognize that our lending and investing practices have a significant impact on society and strive to promote sustainable development in our policies. The Government in recent years has taken the initiative to encourage Shariah investing and increase demand of the Shariah mandate.

In supporting our Government's initiative, the Stockbroking Division of HLIB established an Islamic Windows in October 2016 to cater for the market needs for Shariah compliant products. The necessary frameworks were undertaken to facilitate process of appointing a Shariah Advisor to monitor and assist in all areas within Shariah frameworks. Thus far, the team has successfully assisted four of its existing clients to convert from the conventional trading account to Shariah trading account. There are on-going efforts and initiatives to encourage our other clients to convert to Shariah trading accounts.

Apart from the above initiative, we are mindful of the impact of our stock recommendations and professional advice on our client's businesses. Recommendations and advice will be aligned to the fund managers' portfolio mandates or clients' business objectives.

The Group currently has no policies or procedures targeted at environmental and social components. As such, our management has planned to review the existing approach with the aim of introducing responsible lending and investing guidelines in the assessment of business, credit and investment risks. These approaches may entail the screening of clients and businesses to minimise engagements which could potentially result in material adverse environmental and social impacts. We aim to closely engage our clients in promoting credit and investment products which prioritizes sustainability development in line with our sustainability pledge.

Sustainability Report

CONTENT INDEX

PROFILE DISCLOSURE	REFERENCE PAGE
Scope and Basis for the Scope	
Boundaries applied and reasons for selecting these boundaries	23-24
Governance Structure	
Governance structure in place to manage the economic, environmental and social risks and opportunities	24
How the Material Sustainability Matters are Identified	
Materiality assessment process	25
Material Sustainability Matters	
Risks and opportunities arising from economic, environmental and social impacts of our operations and activities	26-27

Themes	Indicators	REFERENCE PAGE
Innovation		
Innovation	• How innovation is managed within the HLCB • Description of innovation initiatives that have been implemented • Innovative products and services implemented	28-29
Managing the Environmental Footprint		
Energy & Materials	• How energy and materials are managed within the HLCB • Energy consumption within HLCB and reduction of energy consumption • Initiatives taken to minimise energy and manage paper consumption	29
Fair Banking		
Product and Service Labelling	• How fair banking is managed within the HLCB • Initiatives implemented to enhance client experience of products and services • Engagement channels through which HLCB obtain feedback on its products and services	30
Ethics and Integrity		
Anti-Corruption	• How ethics and integrity is managed within the HLCB • Policies and initiatives implemented to ensure the business operates ethically and with integrity	30

Sustainability Report

CONTENT INDEX

Themes	Indicators	REFERENCE PAGE
Client Experience		
Product and Service Labelling	• How client experience is managed within the HLCB • Initiatives implemented to enhance client experience of products and services • Engagement channels through which HLCB obtains feedback on its products and services	30-31
Compliance		
Compliance	• How compliance is managed within the HLCB • Monetary value of significant fines for non-compliance with the laws and regulations concerning the provision and use of products and services	31
Cyber Security and Data Privacy		
Customer Privacy	• How cyber security and data privacy is managed within the HLCB • Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data • Policy and initiatives implemented to enhance cyber security	31-32
Employee Experience		
Employment	• Total number of new employee hires by age group and gender • Benefits provided to full-time employees	32-35
Training and Education	• Average hours of training per year per employee by employee category	
Diversity and Equal Opportunity	• Composition and breakdown of employees according to employee category, gender and age group.	
Impact Investing		
Product Portfolio	• How Impact Investing is managed within the HLCB	35

Corporate Information

Corporate Information

DIRECTORS

YBhg Tan Sri Quek Leng Chan
(Chairman)

Mr Tan Kong Khoon

YBhg Tan Sri Dato' Seri
Khalid Ahmad bin Sulaiman

YBhg Dato' Ahmad Fuaad
bin Mohd Dahalan

YBhg Dato' Mohamed Nazim
bin Abdul Razak

Ms Tai Siew Moi

GROUP COMPANY SECRETARY

Ms Christine Moh Suat Moi
MAICSA 7005095

AUDITORS

Messrs PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat
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

Awards & Accolades

Awards For Deal Innovation and Top Lead Manager

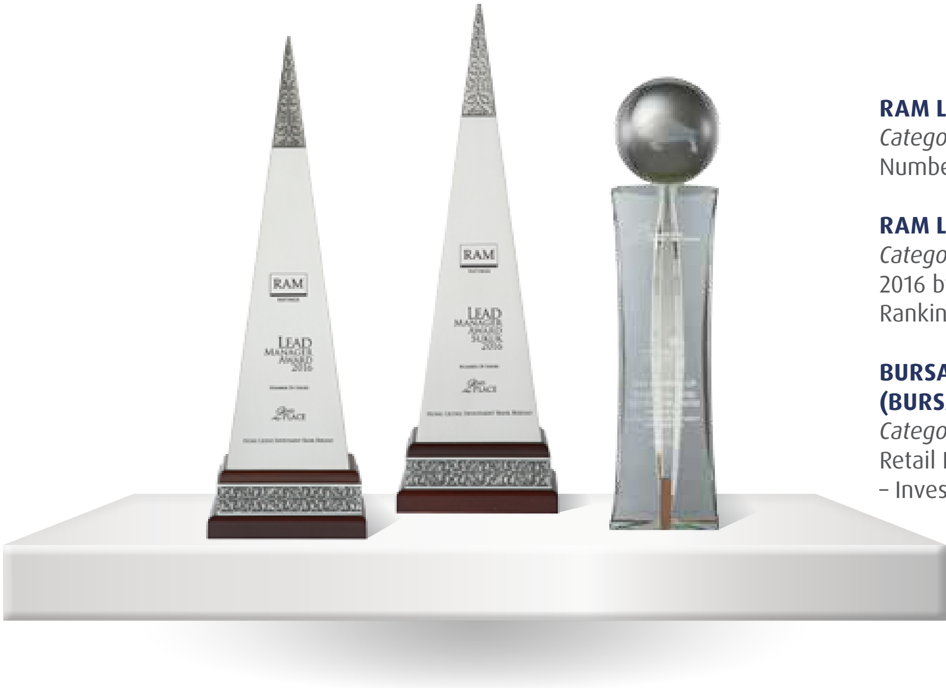
KLIFF Islamic Finance Award 2016 (Kuala Lumpur Islamic Finance Forum)
Category: The Most Outstanding ABS Sukuk Product

Alpha Southeast Asia Deal & Solution Awards 2016 (Alpha Southeast Asia)
Category: Best Murabahah Deal of the Year in Southeast Asia

Islamic Finance News Awards 2016 (Islamic Finance News)
Category: Commodity Murabahah Deal of the Year

The Asset Triple A Country Awards 2016 (The Asset)
Category: Best Rights Issue of the Year

Awards & Accolades



RAM League Award 2016 (RAM)
Category: Lead Manager Award 2016 by Number of Issue – Joint 2nd Ranking

RAM League Award 2016 (RAM)
Category: Lead Manager Award (Sukuk) 2016 by Number of Issues – Joint 2nd Ranking

BURSA Excellence Awards 2016 (BURSA)
Category: 2nd runner up for the Best Retail Equities Participation Organisation – Investment Bank

The Edge / Thomson Reuters Lipper Malaysia Fund Awards 2017 (Thomson Reuters)
Category: Group Award: Best Equity Award – Malaysia Provident – Hong Leong Asset Management Bhd

The Edge / Thomson Reuters Lipper Malaysia Fund Awards 2017 (Thomson Reuters)
Category: Individual Award: Best Equity Malaysia – Malaysia Provident, 3 Years – Hong Leong Penny Stock Fund

Board of Directors

YBHG TAN SRI QUEK LENG CHAN
Chairman/Non-Executive/Non-Independent

Age 74, Male, Malaysian

YBhg Tan Sri Quek Leng Chan 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 ("HLCB") and was appointed to the Board of Directors ("Board") of HLCB on 25 February 1991. He is currently a member of the Nomination Committee ("NC") and Remuneration Committee ("RC") of HLCB.

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

MR TAN KONG KHOON
Non-Executive Director/Non-Independent

Age 60, Male, Singaporean

Mr Tan Kong Khoon holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Program.

Mr Tan is the President & Chief Executive Officer of HLFG. He was the Group Managing Director/Chief Executive Officer of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of DBS Bank Ltd ("DBS") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group.

Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank.

From March 2007 to December 2009, Mr Tan was the President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange.

Mr Tan was appointed to the Board of HLCB on 24 February 2016.

Mr Tan is a Director of HLFG and HLB, both companies listed on the Main Market of Bursa Securities. He is also Director of HLA and Hong Leong Investment Bank Berhad ("HLIB"), both public companies.

YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN
Non-Executive Director/Independent

Age 81, Male, Malaysian

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman was educated in England and was called to the English Bar at Middle Temple in 1964. He was admitted to the Malaysian Bar in 1965 and Singapore Bar in 1970. He was a founding partner of K Ahmad & Yong, a legal firm in Penang in 1970 and was a Senior Partner till June 2008. He was a Consultant with K Ahmad & Yong from 2008 to June 2016. He was the Chairman of the Advocates and Solicitors Disciplinary Board Malaysia from 2005 to 2013. He was the Penang State Executive Councillor from 1974 to 1982 and was the acting Penang Chief Minister in 1979 and has also 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 currently the Chairman of the Board Audit and 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 HLIB, a public company.

Board of Directors

YBHG DATO' MOHAMED NAZIM BIN ABDUL RAZAK

Non-Executive Director/Independent

Age 55, Male, Malaysian

YBhg Dato' Mohamed Nazim bin Abdul Razak, an architect by profession, graduated from the Architectural Association, School of Architecture, London. He served with YRM Architects in London, a multi-disciplinary building design consultancy and has more than 20 years experience in the architectural field, 18 of which were in Kuala Lumpur. YBhg Dato' Mohamed Nazim is the Chief Executive Officer of NRY Architects Sdn Bhd.

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

YBhg Dato' Mohamed Nazim is also a Director of XiDeLang Holdings Ltd, a company listed on the Main Market of Bursa Securities and The Legends Golf and Country Resort Berhad, a public company.

YBHG DATO' AHMAD FUAAD BIN MOHD DAHALAN

Non-Executive Director/Independent

Age 67, Male, Malaysian

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

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

YBhg Dato' Ahmad Fuaad was appointed to the Board of HLCB on 12 December 2005. He is currently a member of the BARMC, NC and RC of HLCB.

YBhg Dato' Ahmad Fuaad is a Director of YTL Corporation Berhad, a company listed on the Main Market of Bursa Securities. He is also a director of YTL e-Solutions Berhad, a public company.

MS TAI SIEW MOI

Non-Executive Director/Independent

Age 59, Female, Malaysian

Ms Tai Siew Moi graduated from University of Malaya with a Bachelor of Accounting Degree and holds a Masters Degree in Business Administration from Cranfield, United Kingdom. She is a Chartered Accountant registered with the Malaysian Institute of Accountants.

Ms Tai has 18 years experience in the derivatives broking industry. She held the position of Executive Director of the derivatives broking subsidiary of Hwang-DBS Group from 2006 to 2015. Thereafter, she held the position of Executive Vice President, Futures, heading the derivatives broking business of Affin Hwang Investment Bank Berhad till 2016.

Prior to joining Hwang-DBS Group, she held various management positions in the area of corporate affairs and corporate services with a few companies including public listed companies, handling corporate exercise like mergers and acquisitions, initial public offerings, rights issues, bonds and warrants issue. Prior to that, she was attached to a management consultants firm doing consultancy work which include project feasibility studies, accounting and internal control systems review. Earlier on in her career, she was attached with the Accountant General's Department of Malaysia as a Treasury Accountant.

Ms Tai was appointed to the Board of HLCB on 18 September 2017. She is currently a member of the BARMC and RC of HLCB.

Notes:

1. **Family Relationship with Director and/or Major Shareholder**
   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 (excluding traffic offences) in the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2017.
4. **Attendance of Directors**
   Details of Board meeting attendance of each Director are disclosed in the Statement on Corporate Governance, Risk Management and Internal Control in the Annual Report.

Key Senior Management

MS LEE JIM LENG

Group Managing Director/Chief Executive Officer of Hong Leong Investment Bank Berhad ("HLIB"), a wholly-owned subsidiary of HLCB

Age 54, Female, Malaysian

Ms Lee Jim Leng obtained a Bachelor of Business Administration degree in 1984 from the Acadia University and a Master of Business Administration in 1987 from the Dalhousie University, Canada.

Ms Lee is the Group Managing Director/Chief Executive Officer of HLIB since 24 November 2009.

Ms Lee has more than 20 years of experience in the financial industry, specialising mainly in investment banking. Prior to joining HLIB, she was the Managing Director of a local investment bank where she was responsible for the overall development of the bank's investment business in Malaysia. From 1999 to 2007, she was attached to a Singapore based regional bank and was tasked to spearhead their investment banking division in Malaysia and the ASEAN region.

MR CHONG POH CHOON

Head, Treasury & Markets of HLIB, a wholly-owned subsidiary of HLCB

Age 39, Male, Malaysian

Mr Chong Poh Choon is a Chartered Financial Analyst and he is a degree holder majoring in Finance from the Multimedia University.

Mr Chong joined HLIB on 16 September 2009 as Senior Vice President, Treasury & Markets. He was appointed as the Head Treasury & Markets on 28 June 2017.

He was with HwangDBS Investment Bank Berhad (now known as Affin Hwang Investment Bank Berhad) as Assistant Vice President, Treasury & Markets for two years. Prior to this, he was with United Overseas Bank (M) Berhad, Malaysian Rating Corporation Berhad and Ernst & Young.

MR LING YUEN CHENG

Head, Debt Markets of HLIB, a wholly-owned subsidiary of HLCB

Age 49, Male, Malaysian

Mr Ling Yuen Cheng holds a Master of Applied Finance and Bachelor of Economics (Accounting & Finance) from Macquarie University, Sydney, Australia.

Mr Ling joined HLIB on 16 September 2009 as Co-Head of Debt Markets and was re-designated as the Head of Debt Markets since 1 March 2012.

Mr Ling has over 20 years of working experience in the banking industry. Prior to joining HLIB in September 2009, he was the Co-Head of Debt Markets in HwangDBS Investment Bank Berhad (now known as Affin Hwang Investment Bank Berhad). Prior to that, he was with United Overseas Bank (M) Berhad, OCBC Bank (Malaysia) Berhad, Huat Realty Sdn Bhd (related to Genting Group) and Southern Bank Berhad. Over his entire banking career, he was exposed to various areas including treasury operations, risk management, corporate banking, assets & liabilities management and investment banking related activities including debt origination, execution and placement.

Key Senior Management

MR PHANG SIEW LOONG

Head of Equity Markets of HLIB, a wholly-owned subsidiary of HLCB

Age 49, Male, Malaysian

Mr Phang Siew Loong holds a Master of Business Administration from Georgia State University, United States ("US") and a Bachelor of Science in Economics from University of Louisiana in Lafayette, US (formerly known as University of Southwestern Lafayette).

Mr Phang joined HLIB on 11 October 2010 as the Co-Head of Equity Markets. Mr Phang was re-designated as the Head of Equity Markets since 13 June 2017.

Prior to HLIB, Mr Phang was with Public Investment Bank for almost 10 years, his last position being the Head of Corporate Finance. Prior to that, he was with Affin Merchant Bank and Sime Merchant Bank.

ENCIK MUHAMMAD AWI GOO @ GOO KIM HOOI

Head of Broking of HLIB, a wholly-owned subsidiary of HLCB

Age 55, Male, Malaysian

Encik Muhammad Awi Goo @ Goo Kim Hooi holds a professional accounting qualification (MICPA) and is a degree holder in Mathematics from Universiti Sains Malaysia.

Encik Muhammad Awi Goo joined Hong Leong Financial Group Berhad on 1 December 1991 as an accountant. He was appointed as the Head of Broking of HLIB on 1 January 2016.

Prior to joining HLIB, he was a Senior Auditor in Pricewaterhouse from 1989 to 1990, Accountant in Artwright Marketing Sdn Bhd from 1990 to 1991, Accountant in Hong Leong Financial Group Berhad from 1991 to 1993, Accountant/Head of Credit Control in Zalik Securities from 1994 to 2000, Head of Operations in HLG Securities Sdn Bhd from 2000 to 2012 and Acting Head of Broking in HLIB from 2013 to 2015.

MR HOO SEE KHENG

Chief Executive Officer/Executive Director, Hong Leong Asset Management Bhd ("HLAM"), a wholly-owned subsidiary of HLCB

Age 51, Male, Malaysian

Mr Hoo See Kheng obtained a Bachelor of Commerce, majoring in Accounting and Finance from University of New South Wales Australia and a post-graduate diploma in System Analysis and Design from Japan-Singapore Institute of Software Technology. Mr Hoo is also a member of the Malaysian Institute of Accountants and a Certified Information System Auditors, USA. He obtained his Capital Markets Services Representative's license from the Securities Commission on 22 October 1998.

Mr Hoo joined HLAM on 1 March 2014. He was appointed as Executive Director of HLAM on 27 March 2014 and Chief Executive Officer on 12 May 2014.

Mr Hoo has more than seventeen years experience in the financial industry, mainly in areas of asset management and unit trust.

Key Senior Management

MR LAU YEW SUN

Chief Financial Officer of HLIB, a wholly-owned subsidiary of HLCB

Age 51, Male, Malaysian

Mr Lau Yew Sun is a certified public accountant under Malaysian Institute of Certified Public Accountants. He holds a Bachelor of Accountancy (Hons) from Universiti Utara Malaysia.

Mr Lau joined HLCB on 29 September 2009 as Group Financial Controller and is presently the Chief Financial Officer of HLIB, a position he assumed since 1 August 2017.

Prior to HLCB, he was the Chief Financial Officer of ECM Libra Financial Group Berhad/Acting Chief Operating Officer of Avenue Invest Berhad (ECM Libra) from 23 April 2007 to 28 September 2009.

Notes:

1. **Family Relationship with Director and/or Major Shareholder**
   None of the Key Senior Management has any family relationship with any Director and/or major shareholder of HLCB.

2. **Conflict of Interest**
   None of the Key Senior Management has any conflict of interest with HLCB.

3. **Conviction of Offences**
   None of the Key Senior Management has been convicted of any offences (excluding traffic offences) in the past 5 years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2017.

Board Audit and Risk Management Committee Report

CONSTITUTION

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

COMPOSITION

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)

Ms Tai Siew Moi
(Independent Non-Executive Director)
(Appointed with effect from 18 September 2017)

SECRETARY

The Secretary(ies) to the BARMC are the Company Secretary(ies) of the Company.

TERMS OF REFERENCE

The terms of reference of the BARMC are published on the Company's website at www.hlcap.com.my.

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.

The Group Chief Operating Officer, Chief Risk Officer ("CRO"), Chief Compliance Officer/Head of Compliance ("CCO"), Chief Financial Officer, Head of Internal Audit, other senior management and external auditors may be invited to attend the BARMC meetings whenever required. At least twice a year, the BARMC will have separate sessions with the external auditors without the presence of Executive Directors and management.

The BARMC will also engage privately with the CCO, Head of Internal Audit and CRO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CCO, Head of Internal Audit and CRO to discuss issues faced by compliance, internal audit and risk management functions.

Issues raised, discussion, deliberations, decisions and conclusions made at the BARMC meetings are recorded in the minutes of the BARMC meetings. Where the BARMC is considering a matter in which a BARMC member has an interest, such member shall abstain from reviewing and deliberating on the subject matter.

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

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

ACTIVITIES

The BARMC carried out its duties in accordance with its Terms of Reference.

During the financial year ended 30 June 2017 ("FYE 2017"), four (4) BARMC meetings were held and the attendance of the BARMC 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	3/4

Ms Tai Siew Moi was appointed as a member of BARMC after the close of the FYE 2017 and as such did not attend any of the BARMC meetings held during the FYE 2017.

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES:

Financial Reporting

The BARMC reviewed the quarterly reports and financial statements of the Company and of the Group focusing particularly on:-

(i) any changes in accounting policies and practices;
(ii) significant adjustments arising from the audit;
(iii) the going concern assumptions; and
(iv) compliance with accounting standards and other legal requirements.

Board Audit and Risk Management Committee Report

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES: (CONTINUED)

Financial Reporting (continued)

The legal and regulatory environment was monitored and consideration given to changes in law, regulation, accounting policies and practices including the additional disclosure requirements under the amended Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

External Audit

The external auditors of the Group for the FYE 2017 is Messrs PricewaterhouseCoopers ("PwC"). The BARMC discussed and reviewed with the external auditors, before the audit commences for the financial year, the audit plan and timetable for the financial audit of the Group including the focus areas and approach to the current financial year's audit and any significant issues that can be foreseen, either as a result of the past year's experience or due to new accounting standards or other changes in statutory or listing requirements.

The BARMC reviewed the report and audit findings of the external auditors and considered management's responses to the external auditor's audit findings and investigations. The BARMC also had two (2) separate sessions with the external auditors without the presence of Executive Directors and management whereby matters discussed include key reservations noted by the external auditors during the course of their audit; whilst the BARMC Chairman maintained regular contact with the audit partner throughout the year.

The BARMC reviewed the external audit fees and their scope of services. The fees paid to PwC for the FYE 2017 amounted to RM739,481 of which RM322,732 was payable in respect of non-audit services. Non-audit services accounted for 43.4% of the total fees payable. The BARMC assessed the objectivity and independence of the external auditors prior to the appointment of the external auditors for ad-hoc non-audit services.

The BARMC also evaluated the performance of PwC in the following areas in relation to its re-appointment as auditors for the FYE 2017 and considered PwC to be independent:-

(i) level of knowledge, capabilities, experience and quality of previous work;
(ii) level of engagement with BARMC;
(iii) ability to provide constructive observations, implications and recommendations in areas which require improvements;
(iv) adequacy in audit coverage, effectiveness in planning and conduct of audit;
(v) ability to perform the audit work within the agreed timeframe;
(vi) non-audit services rendered by PwC does not impede independence;
(vii) ability to demonstrate unbiased stance when interpreting the standards/policies adopted by HLCB; and
(viii) risk of familiarity threat to ensure that the independence and objectivity of the external auditor was not compromised.

PwC, in accordance with professional ethical standards, have provided the BARMC with confirmation of their independence for the duration of the FYE 2017 and the measures used to control the quality of their work.

The BARMC has therefore recommended to the Board that PwC be re-appointed as the auditors. Resolutions concerning the re-appointment of PwC will be proposed to shareholders at the 2017 Annual General Meeting.

Related Party Transactions

The BARMC conducted quarterly review of the recurrent related party transactions ("RRPT") entered into by the Group to ensure that such transactions are undertaken on commercial terms and on terms not more favourable to the related parties than those generally available to and/or from the public.

The Group had put in place procedures and processes to monitor, track and identify the RRPT as well as to ensure that the RRPT are conducted on commercial terms consistent with the Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable.

The BARMC reviewed the said procedures and processes on an annual basis and as and when required, to ensure that the said procedures are adequate to monitor, track and identify RRPT in a timely and orderly manner, and are sufficient to ensure that the RRPT will be carried out on commercial terms consistent with the Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public.

Internal Audit

The BARMC review the adequacy of internal audit scope, internal audit plan and resources of the various internal audit functions within Group Internal Audit Division ("GIAD").

During the financial year, BARMC noted that GIAD had effectively carried out internal audits to all business entities of the Group and reviewed the GIAD's reports on the audits performed on the investment banking business and asset management business as set out under Internal Audit Function of this report.

Board Audit and Risk Management Committee Report

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES: (CONTINUED)

Internal Audit (continued)

The review of BARMC on the audit findings and recommendations of the GIAD focusing of the adequacy and integrity of internal control systems, business and compliance audits on the respective divisions. The management responses to GIAD's findings were also presented for the BARMC's consideration. The BARMC also reviewed at every BARMC meetings the status update of management's corrective action plans for the resolution of internal audit's findings and recommendations. Recommendations were made by BARMC to ensure that the root causes raised by GIAD in their audit reports were effectively resolved and that any outstanding audit findings be tracked for timely resolution.

Risk Management and Internal Control System

The BARMC considered reports on risk management for the purpose of overseeing and reporting to the Board, on the proper functioning of Risk Management as part of its responsibilities to monitor the Group's compliance with the business objectives, policies, reporting standards and control procedures of the Group.

The CRO was invited to present to the BARMC the Risk Management Dashboard covering among others Credit Risk, Market Risk, Liquidity Risk, Operational Risk, IT Risk and Regulatory Risk. The BARMC also considered and reviewed the processes put in place to identify, evaluate and manage significant risks encountered by the Group as well as the adequacy and integrity of internal control systems, including risk management and relevant management information system.

Compliance

The BARMC considered reports on compliance for the purpose of overseeing and reporting to the Board on the compliance functions of the Group as part of its responsibilities to monitor the Group's compliance with regulatory requirements and internal policies.

The CCO was invited to present to the BARMC the compliance reports and deliberations on significant compliance issues were made.

INTERNAL AUDIT FUNCTION

The Internal Audit function is outsourced to GIAD of Hong Leong Bank through a service agreement. GIAD employs a risk-based assessment approach in auditing the Company's business and operational activities. The high risk activities are given due attention and audited on a more regular basis while the rest are prioritised accordingly to the potential risk exposure and impact.

Internal Audit Department ("IAD") provides an independent and objective assessment of Hong Leong Capital Group companies' activities, with the aim to add value as well as to improve the efficiency and effectiveness of the operational processes, information systems, risk management and internal controls.

IAD utilises a risk-based, systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance systems and processes, and providing the BARMC with information, recommendations and reasonable assurance to assist them in the effective discharge of their responsibilities to the shareholders and stakeholders.

To this effect, the IAD function assesses the following areas:

(i) Risks are appropriately identified and managed.
(ii) Control environments are effective and sufficient.
(iii) Governance processes are adequate and effective, and interaction with the various governance groups occurs as needed.
(iv) Significant financial, managerial, and operating information is accurate, reliable, and timely.
(v) Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
(vi) Resources are acquired economically, being used efficiently, and are adequately protected.
(vii) Programs, plans, and objectives are achieved.
(viii) Quality and continuous improvement are fostered in the organisation's control process.
(ix) Significant legislative or regulatory issues impacting the organisation are recognised and adequately addressed.
(x) Effectiveness and robustness of stress testing procedures and practices.
(xi) Adequacy and effectiveness in assessing the entity's capital in relation to its estimation of risk.
(xii) Compliance with internal and external policies, procedure, rules, guidelines, directives, laws and regulations.
(xiii) Compliance with Shariah rules and principles as determined by entity's Shariah Committee or other relevant Islamic authorities (for Islamic operations).
(xiv) Identification of opportunities and area of improvements in management control, profitability, and the organisation's image.

The cost incurred for the Internal Audit function in respect of the FYE 2017 was RM1,001,369.

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

Corporate Governance, Risk Management & Internal Control

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

~ Finance Committee on Corporate Governance

The Board of Directors ("Board") has reviewed the manner in which the Malaysian Code on Corporate Governance 2012 (the "Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the principles and recommendations as set out in the Code except where otherwise stated.

The Board took cognisance of the new Malaysian Code on Corporate Governance published in April 2017 ("MCCG 2017") which is applicable to annual reports published from 2018 onwards.

A. ROLES AND RESPONSIBILITIES OF THE BOARD

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

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board and published on the Company's website at 'www.hlcap.com.my'. The last review of the Board Charter was carried out in September 2017. The key roles 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 those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure.

In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions, internal controls and risk management to the Board Audit and Risk Management Committee ("BARMC"). The Nomination Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and Chief Executive Officer ("CEO") appointments and re-appointments and oversee management succession planning.

Corporate Governance, Risk Management & Internal Control

A. ROLES AND RESPONSIBILITIES OF THE BOARD (CONTINUED)

Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

The Chairman leads the Board and ensures its smooth and effective functioning.

Independent Non-Executive Directors ("INEDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of INEDs' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Group continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Group takes a progressive approach in integrating sustainability into its businesses as set out in the Sustainability Statement in the Annual Report.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at www.ssm.com.my. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conduct, wrongful acts or malpractice committed within the Company.

B. BOARD COMPOSITION

The Board comprises six (6) directors, all of whom are non-executive whilst four (4) are independent. The profiles of the members of the Board are provided in the Annual Report.

The Company is guided by Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa") in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board has in place a Board Diversity Policy. The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate. The Board will work towards increasing women participation on the Board in line with the MCCG 2017.

Based on the review of the Board composition in July 2017, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

C. BOARD COMMITTEES

Board Committees have been established by the Board to assist in the discharge of its duties.

(a) BARMC

The composition of the BARMC and a summary of its activities in the discharge of its functions and duties for the financial year and explanation on how the BARMC had met its responsibilities are set out in the BARMC Report in this Annual Report.

The functions and responsibilities of the BARMC are set out in the TOR which are published on the Company's website ('www.hlcap.com.my').

(b) NC

The NC was established on 30 October 2008. The composition of the NC is 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' Mohamed Nazim bin Abdul Razak
(Independent Non-Executive Director)

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

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

The NC's functions and responsibilities are set out in the TOR which is published on the Company's website ('www.hlcap.com.my').

The Company has in place Fit and Proper ("F&P") Policy as a guide for the following process and procedure for assessment of (i) new appointment, re-appointment, re-election and retention of directors, (ii) the appointment of Board Committee members, and (iii) the appointment and re-appointment of CEO, and the criteria used for such assessment.

(i) New Appointments

The nomination, assessment and approval process for new appointments is as follows:

Identification of candidates	Meeting with candidates	• Assessment against Assessment Criteria and Guidelines • F&P Declaration by candidates • Relevant Credit Bureau Checks • CTOS (Bankruptcy) search • Recommendation by the NC	Deliberation by the Board and decision thereof

In assessing the candidates for Board appointments, the NC will take into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired composition and the mix of expertise and experience of the Board as a whole and having regard to the candidates' attributes, qualifications, management, leadership, business experience and their F&P Declarations in respect of their probity, competence, qualifications, skills, experience and financial integrity in line with the standards required under the relevant guidelines. The Company has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and director databases in its search for suitable Board candidates.

In the case of CEO, the NC will take into account the candidate's knowledge and experience in the industry, market and segment. The NC will also consider the candidate's F&P Declaration in line with the standards required under the relevant guidelines.

(ii) Re-Appointments

The assessment and approval process for re-appointments is as follows:

CTOS (Bankruptcy) search	• Assessment against Assessment Criteria and Guidelines • F&P Declaration • Recommendation by the NC	Deliberation by the Board and decision thereof

For re-appointments, the Directors/CEOs will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions during the term of office, attendance at Board meetings, F&P Declarations and for independent directors, their continued independence.

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

(iii) Board Committee Appointments

The nomination, assessment and approval process for appointments to Board Committees ("Board Committee Appointments") is as follows:

Identification of Directors for Board Committees membership	• Assessment against Assessment Criteria and Guidelines • Recommendation by the NC	Deliberation by the Board and decision thereof

The assessment for Board Committee Appointments will be based on the Directors' potential contributions and value-add to the Board Committees with regard to Board Committees' roles and responsibilities.

In addition, a formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, the Board Committees and the contribution and performance of each individual director on an annual basis ("Annual Board Assessment") in conjunction with the annual F&P assessment of Directors and CEO. The NC will deliberate on the results of the Annual Board Assessment and submit its recommendation to the Board for consideration and approval. For newly appointed director/CEO, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service.

Assessment criteria for Board as a whole include, inter alia, the effectiveness of the Board composition in terms of size and structure vis-à-vis the complexity, size, scope and operations of the Company; the core skills, competencies and experience of the Directors; and the Board's integrity, competency, responsibilities and performance. The assessment criteria for Board Committees include the effectiveness of the respective Board Committees' composition in terms of mix of skills, knowledge and experience to carry out their respective roles and responsibilities per the Board Committees' TOR and the contribution of Board Committees members. Each individual director is assessed on, inter alia, the effectiveness of his/her competency, expertise and contributions. The skills, experience, soundness of judgment as well as contributions towards the development of business strategies and direction of the Company and analytical skills to the decision-making process are also taken into consideration.

For management succession planning, it has been embedded in the Group's process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

During the financial year ended 30 June 2017 ("FYE 2017"), one (1) NC meeting was held and the attendance of the NC members was as follows:

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

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(b) NC (continued)

The NC carried out the following activities in the discharge of its duties in accordance with its TOR during the FYE 2017:

- Carried out the Annual Board Assessment and was satisfied that the Board as a whole, Board Committees and individual directors have continued to effectively discharge their duties and responsibilities in accordance with their respective TORs, and that the current Board composition in terms of Board balance, size and mix of skills is appropriate and effective for the discharge of its functions. The NC took cognisance of the merits of Board diversity including women participation on the Board, in adding value to the Company. The NC will work towards increasing women participation on the Board in line with the MCCG 2017;

- Considered and assessed the position of independent directors of the Company and was satisfied that the independent directors met the regulatory requirements for independent directors;

- Reviewed and recommended to the Board for approval to include an additional function of the NC to review annually the term of office and performance of the BARMC and each of its members to determine whether the BARMC and its members have carried out their duties in accordance with the TOR of the BARMC in compliance with the MMLR; and

- Reviewed the term of office and performance of the BARMC and each of its members in accordance with the TOR of BARMC and was of the view that the BARMC and each of its members had carried out their duties in accordance with the BARMC TOR for the periods under review.

(c) Remuneration Commitee ("RC")

The RC was established on 30 October 2008. The composition of the RC is 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)

Ms Tai Siew Moi
(Independent Non-Executive Director)
(Appointed as RC member with effect from 18 September 2017)

The RC's functions and responsibilities are set out in the TOR which is published on the Company's website ('www.hlcap.com.my').

During the FYE 2017, one (1) RC meeting was held and the attendance of the RC members was as follows:

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

Ms Tai Siew Moi was appointed as a member of RC after the close of FYE 2017 and as such did not attend any of the RC meeting held during the FYE 2017.

Corporate Governance, Risk Management & Internal Control

C. BOARD COMMITTEES (CONTINUED)

(c) Remuneration Commitee ("RC") (continued)

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked 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 scope of responsibilities and commitment undertaken by them.

The RC, in assessing and reviewing the remuneration packages of executive directors, ensures that 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 are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting ("AGM").

The aggregate remuneration of directors (including remuneration earned as director of a subsidiary) for the FYE 2017 is as follows:

	Fees (RM)		Salaries & Other Emoluments (RM)		Total (RM)	
	Company	Group	Company	Group	Company	Group
Executive Directors	–	–	–	–	–	–
Non-Executive Directors	360,000	455,000	–	–	360,000	455,000

The number of directors whose remuneration (including remuneration earned as director of a subsidiary) falls into the following bands is as follows:

	Executive		Non-Executive	
Range of Remuneration (RM)	Company	Group	Company	Group
100,001 – 150,000	–	–	3	2
200,001 – 250,000	–	–	–	1

D. INDEPENDENCE

The Board takes cognisance of Recommendations 3.2 and 3.3 of the Code. Recommendation 3.2 states that the tenure of an independent director should not exceed a cumulative term of 9 years and upon completion of the 9 years, an independent director may continue to serve on the Board subject to the director's re-designation as a non-independent director. Recommendation 3.3 states that in the event the Company wishes to retain an independent director who has served a cumulative term of 9 years and above, shareholders' approval shall be sought at the AGM every year with justification.

The Company has in place a policy in relation to the tenure for independent directors of the Company ("Tenure Policy") under the F&P Policy of the Company. Pursuant to the Tenure Policy, an independent director who has served on the Board of any company under the Hong Leong Financial Group for a period of 9 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 the due date for his retirement by rotation pursuant to the Constitution of the Company.

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the F&P Policy and make the appropriate recommendation to the Board. For public listed bank/companies under the Hong Leong Financial Group, shareholders' approval at AGMs shall be sought in accordance with the relevant requirements under the Code and the MMLR subject to favourable assessment of the NC and the Board.

Corporate Governance, Risk Management & Internal Control

D. INDEPENDENCE (CONTINUED)

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from directors who have, over time, gained valuable insight into the Group, its market and the industry.

The independent directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, YBhg Dato' Mohamed Nazim bin Abdul Razak and YBhg Dato' Ahmad Fuaad bin Mohd Dahalan, who have served on the Board for more than 9 years remain objective and have continued to bring independent and objective judgment to Board deliberations and decision making. In this regard, the NC is guided by the F&P Policy of the Company. At the forthcoming AGM, the Company will seek shareholders' approval for YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and YBhg Dato' Ahmad Fuaad bin Mohd Dahalan to continue in office as INEDs. Justification for them to continue in office as INEDs is set out below:

- They meet the criteria of "independent director" in accordance with the MMLR and continue to exercise independent judgment in expressing their views and deliberating issues objectively on the conduct of the Company's business and other issues raised at the Board and Board Committee meetings;
- They are free from any conflict of interest with the Company;
- The Company benefits from the experience of these INEDs who have over time, gained valuable insights into the Group, its market and the industry;
- Their knowledge of the Group's various core business operations during their tenure of office will enable them to discharge their duties effectively;
- They exercised due care and diligence as INEDs of the Company and carry out their professional duties in the best interest of the Company and the shareholders; and
- The Company benefits from their mix of skills, experience and competencies for informed and balanced decision-making by the Board.

YBhg Dato' Mohamed Nazim bin Abdul Razak is due for retirement by rotation pursuant to the Constitution of the Company and has informed the Board that he will not seek re-election and will retire at the conclusion of the Twenty-sixth AGM.

E. COMMITMENT

The directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, directors are required to comply with the restrictions on the number of directorships in public listed companies. Directors provide notifications to the Board for acceptance of any new Board appointments. This ensures that their commitment, resources and time are focused on the affairs on the Company to enable them to discharge their duties effectively. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Additional meetings may be convened on an adhoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 50% of Board meetings held in each financial year pursuant to the MMLR.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the 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 a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. She supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flows amongst the Board, Board Committees and senior management. All directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman of the Company.

Corporate Governance, Risk Management & Internal Control

E. COMMITMENT (CONTINUED)

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.

The Board met five (5) times during FYE 2017 with timely notices of issues to be discussed. Details of attendance of each director are as follows:-

Director	Attendancee
YBhg Tan Sri Quek Leng Chan	5/5
Mr Tan Kong Khoon	5/5
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	5/5
YBhg Dato' Mohamed Nazim bin Abdul Razak	3/5
YBhg Dato' Ahmad Fuaad bin Mohd Dahalan	5/5

Ms Tai Siew Moi was appointed to the Board after the close of the FYE 2017 and as such did not attend any of the Board meetings held during the FYE 2017.

The Company recognises the importance of continuous professional development and training for its directors.

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for directors of the Company. The Induction Programme is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as director of the Company. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

Ms Tai Siew Moi who was appointed to the Board on 18 September 2017 and will be registered to attend the Mandatory Accreditation Programme ("MAP"). All the other directors of the Company have completed the MAP.

The Company 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. Directors are kept informed of available training programmes on a regular basis.

The Company has prepared for the use of its directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a director vis-à-vis various laws, regulations and guidelines governing the same.

In assessing the training needs of directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management, information technology, internal control and/or statutory/regulatory compliance, be recommended and arranged for the directors to enhance their contributions to the Board.

During the FYE 2017, the directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its directors and senior management.

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

Corporate Governance, Risk Management & Internal Control

E. COMMITMENT (CONTINUED)

During the FYE 2017, the directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Bank Negara Malaysia – Future Finance Conference
- The Institute of Internal Auditors Malaysia & Malaysian Institute of Corporate Governance – The Evolving Role of Audit Committee in Governance, Risk & Control Forum
- Bursatra – Changes Affecting Directors Under The Companies Act 2016 : What Every Director Needs To Know
- Companies Act 2016 Update
- Briefing on Malaysian Code on Corporate Governance 2017
- 4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Services
- Securities Industry Development Corporation – Capital Market Director Programme
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 : The Law & Compliance
- Briefing Session on Shariah Compliance Trading Window
- An Overview of Latest Development of Shariah Standards issued by Bank Negara Malaysia - Investment Account & Investment Account Platform
- Sustainability Reporting: Awareness Session
- Clarification of Audit Rating Methodology.

F. ACCOUNTABILITY AND AUDIT

The Company has put in place a framework of processes whereby Board committees provide oversight on critical processes of the Company's reporting of financial statements, in order to ensure that accountability and audit are integral components of the said processes.

I Financial Reporting

The Board has a fiduciary responsibility to ensure 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 integrity of financial statements with the assistance of the external auditors.

II Risk Management and 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.

The BARMC is delegated with the responsibility to provide oversight on the Company's management of critical risks that the Group faces, and to review the effectiveness of internal controls implemented in the Company.

The Statement on Risk Management and Internal Control as detailed under Section I of this Statement provides an overview of the system of internal controls and risk management framework of the Group.

III Relationship with Auditors

The appointment of external auditors is recommended by the BARMC, which determines the remuneration of the external auditors. The BARMC reviews the suitability and independence of the external auditors annually. In this regard, an annual assessment and the assessment of the risk of familiarity threat are conducted by the BARMC to evaluate the performance, independence and objectivity of the external auditors prior to making any recommendation to the Board on the re-appointment of the external auditors.

Corporate Governance, Risk Management & Internal Control

F. ACCOUNTABILITY AND AUDIT (CONTINUED)

III Relationship with Auditors (continued)

The Company also has a Policy on the Use of External Auditors for Non-Audit Services to govern the professional relationship with the external auditors in relation to the non-audit services. Assessment will be conducted by the BARMC for non-audit services to ensure that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.

During the financial year under review, the external auditors met 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.

G. DISCLOSURE

The Company has in place a corporate disclosure policy for compliance with the disclosure requirements set out in the MMLR, and to raise awareness and provide guidance to the Board and management on the Group's disclosure requirements and practices.

All timely disclosure and material information documents will be posted on the website after release to Bursa.

H. 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 year, through which shareholders and investors can have an overview of the Group's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on the Company's website, Bursa's website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate in general meetings either in person, by corporate representative, by proxy or by attorney.

The Company has a website at 'www.hlcap.com.my' which the shareholders can access for information which includes the Board Charter, TORs of Board Committees, corporate information, announcements/press releases/briefings, financial information and investor relations. A summary of the key matters discussed at the AGM is published on the Company's website.

The Board has identified YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, the Chairman of the BARMC, as the INED of the Board to whom concerns may be conveyed, and who would bring the same to the attention to the Board.

In addition, shareholders and investors can have a channel of communication with the Chief Financial Officer to direct queries and provide feedback to the Group.

Queries may be conveyed to the Chief Financial Officer at:

Tel No : 03-7723 6318
Fax No : 03-7723 6497/3199
e-mail address : YSLau@hlib.hongleong.com.my

Corporate Governance, Risk Management & Internal Control

H. SHAREHOLDERS (CONTINUED)

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. All directors attended the last AGM held on 27 October 2016.

Pursuant to Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meetings will be put to vote by way of a poll and the voting results will be announced at the meetings and through Bursa.

I. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

I The Responsibilities of the Board

The Board recognises 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 Risk Management and Internal Control - Guidelines for Directors of Listed Issuers.

The Board acknowledges its overall responsibility for the risk management and internal control environment and its effectiveness in safeguarding shareholders' interests and the Group's assets. The risk management and 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 misstatements, losses or frauds.

The system of risk management and 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.

The Board has received assurance from the Group Chief Operating Officer and Chief Financial Officer that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

Based on the outcome of these reviews as well as the assurance it has received from management, the Board is of the view that the Group's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this report.

II Key Risk Management and Internal Control Processes

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

a) Risk Management

Managing risks is an integral part of the Group's overall business strategy. It involves a process for identifying, assessing and managing risks and uncertainties that could inhibit the Group's ability to achieve its strategy and strategic objectives. The Board sets the risk appetite and tolerance level and allocates the Group's capital that is consistent with the Group's overall business objectives and desired risk profile. Recognizing the need to be proactive in the management of risks, the Group has implemented a Risk Management framework where the Group's risks are managed at various levels.

Corporate Governance, Risk Management & Internal Control

I. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

II Key Risk Management and Internal Control Processes (continued)

a) Risk Management (continued)

At the apex of the Risk Management framework, the Board has the overall responsibility to ensure there is proper oversight of the management of risks in the Group. The Chief Risk Officer monitors and reports the Group's Credit, Market, Liquidity, Operational and IT Risks as well as regulatory compliance issues including Anti-Money Laundering/ Anti-Terrorism Financing matters and presents these risk in a single, consolidated view to the BARMC regularly.

The BARMC deliberates and evaluates the reports prepared by the Chief Risk Officer on the adequacy and effectiveness of the controls to mitigate the Group's risks and provides updates to the Board, and where appropriate, make the necessary recommendations to the Board.

b. Internal Control Review

The Internal Audit function is outsourced to Group Internal Audit Division ("GIAD") of Hong Leong Bank through a service agreement. GIAD employs a risk-based assessment approach in auditing the Company's business and operational activities. The high risk activities covered include AML/CFT framework, cyber risk management framework and banking secrecy provision which are given due attention whilst key operational areas in investment banking, stockbroking and asset management were audited on a more regular basis. Other operational areas (including branches) are prioritised accordingly to the potential risk exposure and impact. The GIAD regularly reviews the critical operations (as defined by the respective regulators) to ensure that the internal controls are in place and working effectively.

The results of the audits conducted by GIAD are reported to the BARMC. Follow-up action and the review of the status of action taken as per the auditors' recommendation are carried out by management.

Implementation of audit recommendations is followed up on a monthly basis and reported to the Management Committee ("MC") and on a quarterly basis to the BARMC. Highlights of the BARMC meetings are submitted to the Board for review and further deliberation. In addition, internal controls are also effected through the following processes:

- The Board receives and reviews regular reports from the management on the key operating statistics, business dynamics, legal matters and regulatory issues that would have implications on internal control measures.
- The BARMC on a quarterly basis, reviews and holds discussion with management on the actions taken on internal control issues identified in the reports prepared by the GIAD, external auditors and regulatory authorities.
- Policies on delegation and authority limits are strictly implemented to ensure culture that respects integrity and honesty, and thereby reinforce internal controls.
- Policies and procedures are set out in Standard Operating Policies and Procedures manuals and disseminated through the organisation in support of a learning culture, so as to reinforce an environment of internal controls disciplines.
- Policies for recruitment, promotion and termination of staff are in place to ensure the Group's human resources comply to internal controls requirements.

c. Compliance

The Group's Compliance Officers monitor and assess daily operations of licensed subsidiaries to ensure compliance with regulatory requirements and approved internal policies. All breaches and exceptions are brought to the attention of the BARMC and other relevant committees and are kept informed of the causes and the status of remedial measures taken.

Corporate Governance, Risk Management & Internal Control

I. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

II Key Risk Management and Internal Control Processes (continued)

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.
- 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.
- The competencies and professionalism of the Group's human resources are developed and maintained through rigorous recruitment process, training programs and a performance appraisal system. Proper guidelines are in place for the recruitment, promotion and termination of staff.

J. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The MMLR require the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of its financial performance and cash flows of the Group and of the Company for the financial year.

The directors are satisfied that in preparing the financial statements of the Group and of the Company for the FYE 2017, 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, Risk Management and Internal Control is made in accordance with the resolution of the Board.

Directors' Report

for the financial year ended 30 June 2017

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 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are investment banking, stockbroking business, futures broking, related financial services, nominees and custodian services, unit trust management, fund management and sale of unit trusts as disclosed in Note 12 to the financial statements.

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

FINANCIAL RESULTS

	The Group RM'000	The Company RM'000
Net profit for the financial year	79,085	59,615

DIVIDENDS

Since the previous financial year ended 30 June 2016, a final single-tier dividend of 12.0 sen per share, amounting to RM29.0 million in respect of the financial year ended 30 June 2016, was paid on 18 November 2016.

Dividend paid on the shares held in trust pursuant the Company's Executive Share Option Scheme ("ESOS") which are classified as treasury shares held for ESOS scheme are not accounted for in the total equity. An amount of RM673,524 being dividend paid for these shares was added back to the appropriation of retained profits.

The Directors recommend a final single-tier dividend of 19.0 sen per share on the Company's issued and paid-up share capital of RM246,896,668 comprising of 246,896,668 ordinary shares, amounting to RM46.9 million for the financial year ended 30 June 2017.

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.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 45 to the financial statements.

SIGNIFICANT EVENT AFTER THE FINANCIAL YEAR

Significant event after the financial year is disclosed in Note 46 to the financial statements.

Directors' Report

for the financial year ended 30 June 2017

RESERVES AND PROVISIONS

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

DIRECTORS

The name of the Directors of the Company in office during the financial year and during the period commencing from the end of the financial year to the date of this report are:-

YBhg Tan Sri Quek Leng Chan	(Chairman, Non-Independent Non-Executive Director)
Mr Tan Kong Khoon	(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)
Ms Tai Siew Moi	(Independent Non-Executive Director) (Appointed on 18.09.2017)
Mr Quek Kon Sean	(Non-Independent Non-Executive Director) (Resigned on 09.07.2016)

The names of directors of subsidiaries are set out in the respective subsidiary's statutory accounts and the said information is deemed incorporated herein by such reference and made a part thereof.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, 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 loan stocks and/or options over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2017 are as follows:

	Shareholdings in which Directors have direct interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***				
	Nominal value per share RM (unless indicated)	As at 01.07.2016	Acquired	Sold	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	390,000	–	–	390,000
Hong Leong Financial Group Berhad	(1)	5,438,664	–	–	5,438,664
Guoco Group Limited	USD0.50	1,056,325	–	–	1,056,325
GuocoLand Limited	(2)	13,333,333	–	–	13,333,333
GuocoLand (Malaysia) Berhad	(1)	19,506,780	–	–	19,506,780
GL Limited	USD0.20	735,000	–	–	735,000
The Rank Group Plc	GBP13$^{8/9}$p	285,207	–	–	285,207

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' INTERESTS (CONTINUED)

		Shareholdings in which Directors have direct interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***			
	Nominal value per share RM (unless indicated)	As at 01.07.2016	Acquired	(Sold)	As at 30.06.2017
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	(1)	5,544,000	–	–	5,544,000
Hong Leong Bank Berhad	(1)	400,000	–	–	400,000
Hong Leong Industries Berhad	(1)	52,800	–	–	52,800
Malaysian Pacific Industries Berhad	(1)	20,800	–	–	20,800
Hume Industries Berhad	(1)	57,024	–	–	57,024

		Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***			
	Nominal value per share RM (unless indicated)	As at 01.07.2016	Acquired	(Sold)	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	13,233,455 (7)	–	(5,532,000)(13)	7,701,455 (7)
Hong Leong Financial Group Berhad	(1)	898,436,732	2,452,500 (12)	(4,730,506)(13)	896,158,726 (7)
Hong Leong Capital Berhad	(1)	200,805,058	–	–	200,805,058
Hong Leong Bank Berhad	(1)	1,346,237,169	–	–	1,346,237,169
Hong Leong MSIG Takaful Berhad	(1)	65,000,000	–	–	65,000,000
Hong Leong Assurance Berhad	(1)	140,000,000	–	–	140,000,000
Hong Leong Industries Berhad	(1)	245,435,003 (7) 200,000 *(7)	–	(2,019,333)(13) –	243,415,670 (7) 200,000 *(7)
Hong Leong Yamaha Motor Sdn Bhd	(1)	17,352,872	–	–	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	(1)	19,600,000	–	–	19,600,000
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	(1)	1,750,000	–	(1,750,000)(10)	–
Century Touch Sdn Bhd (In members' voluntary liquidation)	(1)	6,545,001	–	–	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	(1)	10,560,627	–	–	10,560,627
Malaysian Pacific Industries Berhad	(1)	112,217,857 (7)	–	(2,509,850)(7) (757,250)(13)	108,950,757

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' INTERESTS (CONTINUED)

	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***				
	Nominal value per share RM (unless indicated)	As at 01.07.2016	Acquired	(Sold)	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
Carter Resources Sdn Bhd	(1)	5,640,607	–	–	5,640,607
Carsem (M) Sdn Bhd	(1)	84,000,000	–	–	84,000,000
	(1)	22,400 (8)	–	–	22,400 (8)
Hume Industries Berhad	(1)	353,447,487 (7)	–	(1,029,950)(11) (2,185,879)(13)	350,231,658 (7)
		100,000 *(7)	–	–	100,000 *(7)
Guoco Group Limited	USD0.50	237,124,930	–	–	237,124,930
GuocoLand Limited	(2)	817,911,030	–	–	817,911,030
		100,000 *(7)	320,000 *(7)	–	420,000 *(7)
Southern Steel Berhad ("SBB")	(1)	299,541,202	–	(7,371,493)(13)	292,169,709
	(1)	141,627,296 **	–	(1,550,959)**	140,076,337 **
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	118,822,953	4,550,000	–	123,372,953
	(1)	20,000,000 ***(9)	–	(20,000,000)***(9)&(16)	–
TPC Commercial Pte. Ltd. (formerly known as Belmeth Pte. Ltd.)	(2)	40,000,000	149,600,000	–	189,600,000
TPC Hotel Pte. Ltd. (formerly known as Guston Pte. Ltd.)	(2)	8,000,000	–	–	8,000,000
Wallich Residence Pte. Ltd. (formerly known as Perfect Eagle Pte. Ltd.)	(2)	24,000,000	–	–	24,000,000
GLL Chengdu Pte Ltd	(2)	149,597,307 (14)	–	–	149,597,307 (15)
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	(3)	150,000,000	–	–	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	–	–	3,150,000,000
Shanghai Xinhaozhong Property	(4)	19,600,000	–	–	19,600,000
Lam Soon (Hong Kong) Limited Development Co., Ltd	(6)	140,008,659	–	–	140,008,659
Guangzhou Lam Soon Food Products Limited	(5)	6,570,000	–	–	6,570,000
GuocoLand (Malaysia) Berhad	(1)	455,698,596	376,200	(500,000)(13)	455,574,796
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	277,000,000	–	–	277,000,000
JB Parade Sdn Bhd	(1)	28,000,000	–	–	28,000,000
	(1)	68,594,000 (8)	–	–	68,594,000 (8)

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' INTERESTS (CONTINUED)

	Shareholdings in which Directors have deemed interests Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/ conversion of redeemable convertible unsecured loan stocks** or redeemable convertible cumulative preference shares***				
	Nominal value per share RM (unless indicated)	As at 01.07.2016	Acquired	(Sold)	As at 30.06.2017
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
Continental Estates Sdn Bhd	(1)	34,408,000	–	–	34,408,000
	(1)	123,502,605 (8)	–		123,502,605 (8)
GL Limited	USD0.20	933,073,825	4,258,300	(11,578,991)(13)	925,753,134
		100,000 *(7)	–	–	100,000 *(7)
The Rank Group Plc	GBP13$\frac{8}{9}$p	219,282,221	–	–	219,282,221
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	(1)	3,600 (12)	–	–	3,600 (12)
Hong Leong Bank Berhad	(1)	68,000 (12)	–	–	68,000 (12)

Legend:

(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016
(2) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
(3) Capital contribution in RMB
(4) Capital contribution in USD
(5) Capital contribution in HKD
(6) Concept of par value was abolished with effect from 3 March 2014 pursuant to the New Companies Ordinance (Chapter 622), Hong Kong
(7) Inclusive of interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by family member
(8) Redeemable Preference Shares
(9) The redeemable convertible cumulative preference shares ("RCCPS") are convertible into ordinary shares at the option of the holder of RCCPS on the basis of 400 ordinary shares for every RCCPS
(10) Dissolved during the financial year
(11) Transfer of free ordinary shares in HIB to the grant holders upon vesting
(12) Interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by family member
(13) Cessation of deemed interest pursuant to Section 8(4) of the Companies Act 2016
(14) A wholly owned subsidiary
(15) Became a non-wholly owned subsidiary during the financial year
(16) Redemption of RCCPS

Directors' Report

for the financial year ended 30 June 2017

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefits (other than the benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) by reason of a contract made by the Company or its related corporations 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 acquisitions 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 for construction, development, leases, tenancy, licensing, dealership and distributorship; and/or for the provision of treasury functions, advances in the conduct of normal trading, banking, insurance, investment, stockbroking 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 interests.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling 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.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 31 to the financial statements.

Directors' Report

for the financial year ended 30 June 2017

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 be realised at 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; or
- 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 2017 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature;
- there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect substantially the results of the operation of the Group or the Company for the financial year in which this report is made; and
- no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet their obligations as and when they fall due.

(c) As at the date of this report

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

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

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

Directors' Report

for the financial year ended 30 June 2017

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.

SUBSIDIARIES

Details of subsidiaries are set out in Note 12 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration and the indemnity given/insurance effected to the auditor are set out in Note 29 to the financial statements.

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 18 September 2017.

Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
Director

Tan Kong Khoon
Director

Kuala Lumpur
18 September 2017

Statements of Financial Position

as at 30 June 2017

		The Group		The Company	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	2	**267,462**	296,322	**490**	1,065
Clients' and brokers' balances	3	**270,967**	197,034	**–**	–
Securities purchased under resale agreements		**35,123**	–	**–**	–
Deposits and placements with banks and other financial institutions	4	**–**	40,359	**–**	–
Financial assets held-for-trading	5	**1,102,647**	1,418,901	**–**	–
Financial investments available-for-sale	6	**1,173,978**	1,032,304	**140,168**	109,082
Financial investments held-to-maturity	7	**909,215**	528,100	**–**	–
Loans and advances	8	**236,592**	372,162	**–**	–
Other assets	9	**54,772**	50,918	**615**	490
Derivative financial assets	21	**19,916**	42,694	**–**	–
Statutory deposits with Bank Negara Malaysia	10	**58,100**	32,400	**–**	–
Tax recoverable		**215**	191	**213**	186
Deferred tax assets	11	**90,948**	92,378	**–**	–
Investment in subsidiary companies	12	**–**	–	**320,054**	320,054
Property and equipment	14	**5,737**	6,795	**–**	–
Other intangible assets	15	**5,255**	5,440	**–**	–
Goodwill	16	**33,059**	33,059	**–**	–
Total assets		**4,263,986**	4,149,057	**461,540**	430,877
Liabilities					
Clients' and brokers' balances		**271,738**	279,919	**–**	–
Deposits from customers	17	**648,867**	1,031,929	**–**	–
Deposits and placements of banks and other financial institutions	18	**2,247,733**	1,904,770	**–**	–
Obligations on securities sold under repurchase agreements	19	**149,111**	–	**–**	–
Other liabilities	20	**102,536**	100,940	**613**	617
Derivative financial liabilities	21	**47,959**	80,685	**–**	–
Current tax liabilities		**473**	206	**–**	–
Subordinated obligations	22	**50,262**	50,247	**–**	–
Total liabilities		**3,518,679**	3,448,696	**613**	617
Equity					
Share capital	23	**246,896**	246,896	**246,896**	246,896
Reserves	24	**504,442**	459,496	**219,949**	189,282
Treasury shares for ESOS scheme	25	**(6,031)**	(6,031)	**(5,918)**	(5,918)
Total equity		**745,307**	700,361	**460,927**	430,260
Total equity and liabilities		**4,263,986**	4,149,057	**461,540**	430,877
Commitments and contingencies	35	**7,931,230**	8,731,501	**–**	–

Income Statements

for the financial year ended 30 June 2017

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income	26	**149,654**	127,462	**337**	148
Interest expense	27	**(105,859)**	(85,109)	**–**	–
Net interest income		**43,795**	42,353	**337**	148
Non-interest income	28	**158,220**	130,542	**61,531**	48,653
		202,015	172,895	**61,868**	48,801
Overhead expenses	29	**(117,910)**	(108,463)	**(2,126)**	(1,782)
Operating profit before allowances		**84,105**	64,432	**59,742**	47,019
(Allowance for)/writeback of impairment losses on loans and advances and other losses	30	**(68)**	68	**–**	–
Profit before taxation		**84,037**	64,500	**59,742**	47,019
Taxation	32	**(4,952)**	(2,623)	**(127)**	(96)
Net profit for the financial year		**79,085**	61,877	**59,615**	46,923
Earnings per share (sen)					
- Basic	33	**32.8**	25.6		
- Diluted	33	**32.8**	25.6		

Statements of Comprehensive Income

for the financial year ended 30 June 2017

		The Group		The Company	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
Net profit for the financial year		**79,085**	61,877	**59,615**	46,923
Other comprehensive income/(expenses):					
Items that will be reclassified subsequently to profit or loss:					
Net fair value changes on financial investments available-for-sale					
- Unrealised net (loss)/gain on revaluation of financial investments available-for-sale		**(641)**	7,260	**33**	13
- Net transfer to income statements on disposal of financial investments available-for-sale		**(5,885)**	(481)	**(14)**	10
Income tax relating to net fair value changes on financial investments available-for-sale	11	**1,325**	(1,390)	**–**	(13)
Currency translation differences in respect of foreign operation		**16**	(24)	**–**	–
Other comprehensive (expense)/income for the financial year, net of tax		**(5,185)**	5,365	**19**	10
Total comprehensive income for the financial year		**73,900**	67,242	**59,634**	46,933

Statements of Changes in Equity

for the financial year ended 30 June 2017

		Attributable to owners of the parent								
The Group	**Note**	**Share capital RM'000**	**Treasury shares for ESOS scheme RM'000**	**Statutory reserve RM'000**	**Regulatory reserve RM'000**	**Fair value reserve RM'000**	**General reserve RM'000**	**Exchange fluctuation reserve RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 July 2016		**246,896**	**(6,031)**	**113,482**	**3,563**	**6,623**	**543**	**(16)**	**335,301**	**700,361**
Net profit for the financial year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,085**	**79,085**
Other comprehensive (expense)/income, net of tax		**–**	**–**	**–**	**–**	**(5,201)**	**–**	**16**	**–**	**(5,185)**
Total comprehensive (expense)/income		**–**	**–**	**–**	**–**	**(5,201)**	**–**	**16**	**79,085**	**73,900**
Transfer from statutory reserve	24	**–**	**–**	**(113,482)**	**–**	**–**	**–**	**–**	**113,482**	**–**
Transfer to regulatory reserve	24	**–**	**–**	**–**	**(1,059)**	**–**	**–**	**–**	**1,059**	**–**
Dividend paid	34	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(28,954)**	**(28,954)**
At 30 June 2017		**246,896**	**(6,031)**	**–**	**2,504**	**1,422**	**543**	**–**	**499,973**	**745,307**
At 1 July 2015		246,896	(6,031)	113,482	3,031	1,234	543	8	294,465	653,628
Net profit for the financial year		–	–	–	–	–	–	–	61,877	61,877
Other comprehensive income/(expense), net of tax		–	–	–	–	5,389	–	(24)	–	5,365
Total comprehensive income/(expense)		–	–	–	–	5,389	–	(24)	61,877	67,242
Transfer to regulatory reserve	24	–	–	–	532	–	–	–	(532)	–
Dividend paid	34	–	–	–	–	–	–	–	(20,509)	(20,509)
At 30 June 2016		246,896	(6,031)	113,482	3,563	6,623	543	(16)	335,301	700,361

Statements of Changes in Equity

for the financial year ended 30 June 2017

		Non-distributable			Distributable	
The Company	**Note**	**Share capital RM'000**	**Treasury shares for ESOS scheme RM'000**	**Fair value reserve RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 July 2016		**246,896**	**(5,918)**	**(33)**	**189,315**	**430,260**
Net profit for the financial year		**–**	**–**	**–**	**59,615**	**59,615**
Other comprehensive income		**–**	**–**	**19**	**–**	**19**
Total comprehensive income		**–**	**–**	**19**	**59,615**	**59,634**
Dividend paid	34	**–**	**–**	**–**	**(28,967)**	**(28,967)**
At 30 June 2017		**246,896**	**(5,918)**	**(14)**	**219,963**	**460,927**
At 1 July 2015		246,896	(5,918)	(43)	162,910	403,845
Net profit for the financial year		–	–	–	46,923	46,923
Other comprehensive income		–	–	10	–	10
Total comprehensive income		–	–	10	46,923	46,933
Dividend paid	34	–	–	–	(20,518)	(20,518)
At 30 June 2016		246,896	(5,918)	(33)	189,315	430,260

Statements of Cash Flows

for the financial year ended 30 June 2017

	The Group	
	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before taxation	84,037	64,500
Adjustments for:		
Depreciation of property and equipment	1,953	2,002
Amortisation of intangible assets - computer software	2,729	1,499
Gain on disposal of property and equipment	(121)	(4)
Loss/(gain) on liquidation of a subsidiary	7	(589)
Property and equipment written off	8	357
(Writeback of)/allowance for impairment for losses on loans and advances	(564)	22
Allowance for/(writeback of) impairment for losses on clients' and brokers' balances	146	(85)
Allowance for losses on fee income receivables	987	–
Net unrealised loss/(gain) on revaluation of:		
- Financial assets held-for-trading	4,531	2,729
- Derivative financial instruments	(9,937)	24,272
Interest income from:		
- Financial assets held-for-trading	(40,852)	(38,079)
- Financial investments available-for-sale	(39,959)	(34,744)
- Financial investments held-to-maturity	(27,754)	(14,233)
- Derivative financial instruments	(8,032)	(5,836)
Interest expense from:		
- Derivative financial instruments	15,012	11,408
- Subordinated obligations	2,680	2,710
Dividend income from:		
- Financial assets held-for-trading	(2,173)	(1,937)
- Financial investments available-for-sale	(5,891)	(5,659)
	(107,230)	(56,167)
Operating (loss)/profit before working capital changes	(23,193)	8,333
(Increase)/decrease in operating assets		
Clients' and brokers' balances	(74,079)	1,234
Securities purchased under resale agreements	(35,123)	–
Deposits and placements with banks and other financial institutions with original maturity of more than three months	–	124,587
Financial assets held-for-trading	308,657	(495,000)
Loans and advances	136,134	(46,201)
Other assets	(5,009)	(26,304)
Derivative financial instruments	18	(45)
Statutory deposits with Bank Negara Malaysia	(25,700)	23,780
	304,898	(417,949)

Statements of Cash Flows

for the financial year ended 30 June 2017

	Note	The Group 2017 RM'000	The Group 2016 RM'000
Increase/(decrease) in operating liabilities			
Clients' and brokers' balances		**(8,181)**	87,191
Deposits from customers		**(383,062)**	190,182
Deposits and placements of banks and other financial institutions		**342,963**	57,379
Obligations on securities sold under repurchase agreements		**149,111**	–
Other liabilities		**1,596**	26,646
		102,427	361,398
Cash generated from/(used in) operations		**384,132**	(48,218)
Net income tax paid		**(1,973)**	(548)
Net cash generated from/(used in) operating activities		**382,159**	(48,766)
Cash flows from investing activities			
Net purchase of:			
- Financial investments available-for-sale		**(144,499)**	(66,607)
- Financial investments held-to-maturity		**(378,428)**	(146,697)
Dividends received from:			
- Financial assets held-for-trading		**2,173**	1,937
- Financial investments available-for-sale		**5,891**	5,749
Interest received from financial assets held-for-trading, financial investments available-for-sale, financial investments held-to-maturity and derivatives		**113,054**	85,203
Interest paid on derivative financial instruments		**(14,820)**	(11,821)
Cash received from liquidation of a subsidiary		**157**	602
Proceeds from disposal of property and equipment		**189**	5
Purchase of property and equipment		**(948)**	(3,185)
Purchase of intangible assets		**(2,544)**	(3,958)
Net cash used in investing activities		**(419,775)**	(138,772)
Cash flows from financing activities			
Interest paid on subordinated obligations		**(2,665)**	(2,657)
Dividend paid		**(28,954)**	(20,509)
Net cash used in financing activities		**(31,619)**	(23,166)
Net decrease in cash and cash equivalents during the financial year		**(69,235)**	(210,704)
Effect of exchange rate changes		**16**	(24)
Cash and cash equivalents at beginning of the financial year		**336,681**	547,409
Cash and cash equivalents at end of the financial year		**267,462**	336,681
Cash and cash equivalents comprise:			
Cash and short-term funds	2	**267,462**	296,322
Deposit and placements with other financial institutions	4	**–**	40,359
		267,462	336,681

Statements of Cash Flows

for the financial year ended 30 June 2017

	Note	The Company 2017 RM'000	The Company 2016 RM'000
Cash flows from operating activities			
Profit before taxation		**59,742**	47,019
Adjustments for:			
Interest income		**(337)**	(148)
Dividend income from:			
- Financial investments available-for-sale		**(4,099)**	(4,980)
- Subsidiary companies		**(57,300)**	(43,200)
		(61,736)	(48,328)
Operating loss before working capital changes		**(1,994)**	(1,309)
(Increase)/decrease in receivables		**(125)**	186
(Decrease)/increase in payables		**(4)**	119
Cash used in operating activities		**(2,123)**	(1,004)
Income tax paid		**(154)**	(126)
Interest received		**337**	148
Net cash used in operating activities		**(1,940)**	(982)
Cash flows from investing activities			
Net (purchase)/disposal of financial investments available-for-sale		**(31,067)**	24,071
Dividends received from:			
- Financial investments available-for-sale		**4,099**	5,070
- Subsidiary companies		**57,300**	43,200
Investment in a subsidiary		**–**	(50,000)
Net cash generated from investing activities		**30,332**	22,341
Cash flows from financing activities			
Dividend paid		**(28,967)**	(20,518)
Net cash used in financing activities		**(28,967)**	(20,518)
Net (decrease)/increase in cash and cash equivalents during the financial year		**(575)**	841
Cash and cash equivalents at beginning of the financial year		**1,065**	224
Cash and cash equivalents at end of the financial year		**490**	1,065
Cash and cash equivalents comprise:			
Cash and short-term funds	2	**490**	1,065

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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 Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale, and financial assets/financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS 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 financial year. 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 Directors' best knowledge of current events and actions, actual results may differ from those estimates. The area involving higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements includes the following:

Deferred tax asset (Note 11)

Deferred tax assets are recognised for unutilised tax credits to the extent that it is probable that future taxable profits will be available against which the tax credits can be utilised. Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the probability and level of future taxable profits. Management assess the probability of future taxable profit based on the profit projections approved by Directors covering three year period. Management has also considered the estimated growth rate in capital market and Kuala Lumpur Composite Index ("KLCI") in deriving the profit projections. Profits beyond the three year period are extrapolated using the estimated growth rate of 3.8% (2016: 3.8%), based on the historical GDP growth rate of Malaysia on perpetual basis. Management has assumed a percentage of probability factors for taxable profits for fourth year and onwards.

(a) Standards, amendments and improvements to published standards that are applicable to the Group and the Company and are effective

The Group and the Company have applied the following amendments for the first time for the financial year beginning on 1 July 2016:

- Amendments to MFRS 101 "Presentation of Financial Statements" - Disclosure Initiative
- Amendments to MFRS 10, 12 & 128 "Investment Entities - Applying the Consolidation Exception"
- Annual Improvements to MFRSs 2012 - 2014 Cycle

The adoption of these amendments did not have any impact on the current or any prior financial year and are not likely to affect future periods.

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2016. None of these is expected to have a significant effect on the financial statements of the Group and the Company, except the following:

- Amendments to MFRS 107 "Statement of Cash Flows – Disclosure Initiative" (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

- Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses" (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2016. None of these is expected to have a significant effect on the financial statements of the Group and the Company, except the following: (continued)

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2016. None of these is expected to have a significant effect on the financial statements of the Group and the Company, except the following: (continued)

- MFRS 15 "Revenue from contracts with customers" (effective from 1 January 2018) replaces MFRS 118 "Revenue" and MFRS 111 "Construction contracts" and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:

  - Identify contracts with customers
  - Identify the separate performance obligations
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:

  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, there are also increased disclosures.

- MFRS 16 "Leases" (effective from 1 January 2019) supersedes MFRS 117 "Leases" and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group will apply these standards when effective. The adoption of the above standards, amendments to published standards and interpretations to existing standards are not expected to have any significant impact on the financial statements of the Group except for MFRS 9. The financial effect of adoption of MFRS 9 is still being assessed by the Group.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(c) Significant changes in regulatory requirements

Bank Negara Malaysia ("BNM") has issued the policy document on Capital Funds which came into effect on 3 May 2017. The policy document has been updated to remove the requirement for a banking institution to maintain a reserve fund.

BNM expects banking institutions to exercise prudence before submitting an application to distribute the reserves as dividends. BNM in considering the dividend application, shall consider, among others, the banking institution's ability to comply with the fully phased-in capital conservation buffer requirement and any other buffers that the BNM may specify.

During the financial year, the Group has transferred RM113,482,000 from its statutory reserve to retained profits in accordance with BNM's requirements.

(d) Companies Act 2016

The Companies Act 2016 ("New Act") was enacted to replace the Companies Act 1965 with the objectives to create a legal and regulatory structure that will facilitate business, and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation while section 241 and Division 8 of Part III of the New Act come into operation on 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Group and of the Company upon the commencement of the New Act on 31 January 2017 are:

(i) removal of the authorised share capital;
(ii) shares of the Group and the Company will cease to have par or nominal value; and
(iii) the Group and the Company's share premium account will become part of the Group and the Company's share capital.

Notwithstanding this provision, the Group and the Company may within 24 months from the commencement of the New Act, use the amount standing to the credit of its share premium account for purposes as set out in Section 618 (3) of the New Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

The adoption of the New Act does not have any financial impact on the Group and the Company for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on disclosures to the annual report and financial statements for the financial year ended 30 June 2017.

B CONSOLIDATION

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

B CONSOLIDATION (CONTINUED)

(i) Subsidiaries (continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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 and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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 identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statements.

The Group applies predecessor accounting to account for business combinations under common control. Under the predecessor accounting, assets and liabilities acquired are not restated to their respective fair values but at the carrying amounts from the consolidated financial statements of the ultimate holding company of the Group and adjusted to conform with the accounting policies adopted by the Group. The difference between any consideration given and the aggregate carrying amounts of the assets and liabilities (at the date of the transaction) of the acquired entity is recorded as an adjustment to retained earnings. No additional goodwill is recognised. Acquisition-related costs are expensed as incurred. The acquired entity's results, assets and liabilities are consolidated from the date on which the business combination between entities under common control occurred. Consequently, the consolidated financial statements do not reflect the results of the acquired entity for the period before the transaction occurred and the corresponding amounts for the previous year are also not restated.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances, unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

B CONSOLIDATION (CONTINUED)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iii) Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

(iv) Investments in subsidiaries

In the Company's separate financial statements, the investment in subsidiaries is stated at cost less accumulated 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.

On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

The amounts due from subsidiaries of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in subsidiaries.

C PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes its purchase price and any cost 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 de-recognised. All other repair and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Property and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Leasehold land	Over the remaining period of the lease or 100 years whichever is shorter
Buildings on leasehold land	Over the remaining period of the lease or 50 years whichever is shorter
Buildings on freehold land	50 years
Office and computer equipment	3 - 10 years
Furniture and fittings	3 - 10 years
Renovations	5 - 10 years
Motor vehicles	4 - 5 years

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

C PROPERTY AND EQUIPMENT AND DEPRECIATION (CONTINUED)

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 circumstances indicate that the carrying amount may not be recoverable. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Any subsequent increase in the recoverable amount is recognised in the profit or loss. Refer to Note V 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.

D INTANGIBLE ASSETS

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years. Computer software classified as intangible assets are stated at cost less accumulated amortisation and accumulated impairment loss, if any.

(b) Goodwill

Goodwill arises from a business combination and represents the excess of the aggregate of fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed on the acquisition date. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

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 monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill is stated at cost less accumulated impairment loss and is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

E 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

E LEASES (CONTINUED)

(b) Operating lease

Leases of assets under which the significant portion of 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.

F FINANCIAL ASSETS

(a) Classification

The Group and the Company classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

(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. The Group does not have any non-derivative financial assets designated at fair value through profit or loss.

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.

(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

Regular purchases and sales of financial assets are recognised on the settlement date, the date an asset is delivered to or by the Group.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

F FINANCIAL ASSETS (CONTINUED)

(b) Recognition and initial measurement (continued)

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in 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 other comprehensive income, 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 and 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.

G 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 de-recognised 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

G FINANCIAL LIABILITIES (CONTINUED)

(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.

H 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 assess 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 and the Company determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and the Company and historical loss experience for assets with credit risk characteristics similar to those in the Group and in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the financial period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from financial period to financial period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group and the Company to reduce any differences between loss estimates and actual loss experience.

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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

When an asset is uncollectible, it is written-off against the related allowance account. Such assets 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

H IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(a) Assets carried at amortised cost (continued)

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.

(b) Assets carried at available-for-sale

The Group assesses 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.

I 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 Group 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.

J OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

K SALE AND REPURCHASE AGREEMENTS

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

Conversely, obligations on securities sold under repurchase agreements are securities which the Group has 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 statements of financial position.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

K 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.

L CLIENTS' AND BROKERS' BALANCES

In accordance with the Rules of Bursa Malaysia Securities Berhad ("Bursa Securities"), clients' accounts are classified as impaired accounts (previously referred to as non-performing) under the following circumstances:

Types	Criteria for classification as impaired
Contra losses	When an account remains outstanding from more than 16 calendar days from the date of contra transaction
Overdue purchase contracts	When an account remains outstanding from T+5 market days onwards (non-margin purchase) and T+9 market days onwards (discretionary financing)

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.

M 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 qualify 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 Group recognise the fair value of derivatives in profit or loss immediately.

Cash collateral held in relation to derivative transactions are carried at amortised cost.

As at reporting date, the Group and the Company have not designated any derivatives as hedging intruments.

N 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.

O 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.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and short-term funds and deposits and placements with financial institutions, with original maturity of three months or less.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

P BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss within interest expense.

Where the terms of a financial liability are renegotiated and the Company issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Q INCOME TAXES

Tax expense for the period comprises current and deferred tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that its relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. Deferred 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 is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

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

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

Q INCOME TAXES (CONTINUED)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

R PROVISIONS

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

Where the Group and the Company expect a provision to be reimbursed by another party, 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 management's best estimate 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.

S 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 income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

T 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

T RECOGNITION OF FEES AND OTHER INCOME (CONTINUED)

Brokerage income is recognised when contracts are executed. Rollover fees, nominees services and handling charges are recognised on an accrual basis.

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

Management fees charged for management of clients' and unit trust funds 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.

U EMPLOYEE BENEFITS

Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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.

Defined contribution plan

A defined contribution plan is a pension plan under which the Group and the Company pay fixed contributions into a separate entity (fund) on mandatory, contractual or voluntary basis 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 contribute 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 Group operates an equity-settled, share-based compensation plan under which the entity receives services from employees as consideration for equity instruments (share options) of the Group. 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 share option reserve in 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, recognised as treasury shares in the equity.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

U EMPLOYEE BENEFITS (CONTINUED)

Share-based compensation (continued)

When the options are exercised, the Company delivers the treasury shares to the employees. The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised. When options are not exercised and lapsed, the share option reserve is transferred to retained profits. The difference between the net proceeds received and the cost of treasury shares is recorded as an adjustment to retained profits.

V 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.

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 reserve.

W CURRENCY TRANSLATIONS

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's 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 presentation currency and the Company's functional and presentation currency.

(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 or valuations where items are remeasured. 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 securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. 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 other comprehensive income.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

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 contractual substance of the particular instrument.

(b) Share issue costs

Incremental external costs directly attributable to the issue of new shares or options are deducted against share premium account.

(c) Dividends

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument are charged directly to equity.

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.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Company for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2017

AA CONTINGENT ASSETS AND LIABILITIES

The Group and the Company do not recognise contingent assets and liabilities other than those arising from business combination, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

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

AB TRANSACTION WITH OWNERS

Transaction with owners in their capacity as owners are recognised in statement of changes in equity and are presented separately from non-owner changes in equity.

AC EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the Financial Statements

for the financial year ended 30 June 2017

1 GENERAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are investment banking, stockbroking business, futures broking, related financial services, nominees and custodian services, unit trust management, fund management and sale of unit trusts as disclosed in Note 12 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 18 September 2017.

2 CASH AND SHORT-TERM FUNDS

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and balances with banks and other financial institutions	**158,278**	103,644	**490**	1,065
Money at call and deposit placements maturing within one month	**109,184**	192,678	**–**	–
	267,462	296,322	**490**	1,065

Inclusive in cash and short-term funds of the Group are accounts in trust for dealer's representative amounting to RM13,786,000 (30.06.2016: RM12,998,000).

3 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, amounts due from brokers and contra losses.

	The Group	
	2017 RM'000	2016 RM'000
Performing accounts	**270,148**	195,943
Impaired accounts	**1,264**	1,390
	271,412	197,333
Less: Allowance for bad and doubtful debts:		
- individual assessment allowance	**(417)**	(282)
- collective assessment allowance	**(28)**	(17)
	270,967	197,034

Notes to the Financial Statements

for the financial year ended 30 June 2017

3 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

	The Group	
	2017 RM'000	2016 RM'000
Movements of impaired accounts are as follows:		
At 1 July	**1,390**	1,532
Impaired during the financial year	**574**	581
Written back during the financial year	**(700)**	(723)
At 30 June	**1,264**	1,390
Movements in the allowance for losses on clients' and brokers' balances are as follows:		
Individual assessment allowance		
At 1 July	**282**	361
Allowance made during the financial year	**245**	150
Allowance written back during the financial year	**(110)**	(229)
At 30 June	**417**	282
Collective assessment allowance		
At 1 July	**17**	23
Allowance made/(written back) during the financial year	**11**	(6)
At 30 June	**28**	17

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2017 RM'000	2016 RM'000
Licensed banks	**–**	40,359

5 FINANCIAL ASSETS HELD-FOR-TRADING

	The Group	
	2017 RM'000	2016 RM'000
Money market instruments		
Malaysian Government Investment Issues	**30,561**	–
Negotiable instruments of deposits	**831,596**	763,252
	862,157	763,252

Notes to the Financial Statements

for the financial year ended 30 June 2017

5 FINANCIAL ASSETS HELD-FOR-TRADING (CONTINUED)

	The Group	
	2017 RM'000	2016 RM'000
Quoted securities		
In Malaysia:		
Shares	**35,077**	16,772
Unit trust investment	**6,470**	–
	41,547	16,772
Unquoted securities		
Foreign currency bonds	**–**	21,057
Corporate bond and/or sukuk	**198,943**	617,820
	198,943	638,877
	1,102,647	1,418,901

6 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Money market instruments				
Malaysian Government Securities	**30,378**	30,606	**–**	–
Malaysian Government Investment Issues	**60,896**	30,889	**–**	–
Cagamas bonds	**65,442**	15,094	**–**	–
	156,716	76,589	**–**	–
Quoted securities				
In Malaysia:				
Shares	**–**	16,674	**–**	–
Unit trust investment	**201,063**	150,869	**140,168**	109,082
	201,063	167,543	**140,168**	109,082
Unquoted securities				
Shares	**245**	245	**–**	–
Foreign currency bonds	**74,832**	168,754	**–**	–
Corporate bond and/or sukuk	**741,122**	619,173	**–**	–
	816,199	788,172	**–**	–
	1,173,978	1,032,304	**140,168**	109,082

Notes to the Financial Statements

for the financial year ended 30 June 2017

7 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	The Group	
	2017 RM'000	2016 RM'000
Money market instruments		
Malaysian Government Securities	**211,031**	81,194
Malaysian Government Investment Issues	**518,643**	266,161
	729,674	347,355
Unquoted securities		
Foreign currency bonds	**93,757**	125,456
Corporate bond and/or sukuk	**85,784**	55,289
	179,541	180,745
	909,215	528,100

Included in financial investments held-to-maturity are Malaysian Government Investment Issues, which are pledged as collateral for obligations on securities sold under repurchase agreements amounting to RM155,077,000 (30.06.2016: RM Nil).

8 LOANS AND ADVANCES

	The Group	
	2017 RM'000	2016 RM'000
Term loan financing	**25,685**	84,527
Share margin financing	**210,707**	288,004
Staff loans	**64**	71
Other loans	**586**	574
Gross loans and advances	**237,042**	373,176
Less:		
Allowance for losses on loans and advances:		
- individual assessment allowance	**(110)**	(100)
- collective assessment allowance	**(340)**	(914)
Total net loans and advances	**236,592**	372,162
(i) The maturity structure of loans and advances is as follows:		
Maturity within one year	**225,988**	308,648
One year to three years	**10,990**	64,457
Over five years	**64**	71
Gross loans and advances	**237,042**	373,176

Notes to the Financial Statements

for the financial year ended 30 June 2017

8 LOANS AND ADVANCES (CONTINUED)

	The Group	
	2017 RM'000	2016 RM'000
(ii) The loans and advances are disbursed to the following types of customers:		
Domestic business enterprises:		
- small and medium enterprises	**110**	20,273
- others	**120,574**	216,899
Individuals	**108,535**	127,909
Foreign entities	**7,823**	8,095
Gross loans and advances	**237,042**	373,176
(iii) Loans and advances analysed by interest rate sensitivity are as follows:		
Fixed rate:		
- staff housing loans	**64**	71
- other fixed rate loans	**586**	574
Variable rate:		
- cost plus	**236,392**	372,531
Gross loans and advances	**237,042**	373,176
(iv) Loans and advances analysed by their economic purposes are as follows:		
Purchase of securities	**210,707**	338,562
Working capital	**25,685**	33,969
Purchase of transport vehicles	**110**	100
Purchase of landed property	**540**	545
Gross loans and advances	**237,042**	373,176
(v) Loans and advances analysed by geographical distribution are as follows:		
Malaysia	**237,042**	373,176
(vi) Movements in the impaired loans and advances are as follows:		
At 1 July	**574**	623
Impaired during the financial year	**11,002**	–
Amount written-back during the financial year	**–**	(38)
Amount written-off during the financial year	**–**	(11)
At 30 June	**11,576**	574
Ratio of impaired loans to total loans and advances net of individual assessment allowance	**4.9%**	0.2%

Notes to the Financial Statements

for the financial year ended 30 June 2017

8 LOANS AND ADVANCES (CONTINUED)

		The Group	
		2017 RM'000	2016 RM'000
(vii)	Movements in the allowance for losses on loans and advances are as follows:		
	Individual assessment allowance		
	At 1 July	**100**	111
	Allowance made during the financial year	**10**	–
	Amount written-off during the financial year	**–**	(11)
	At 30 June	**110**	100
	Collective assessment allowance		
	At 1 July	**914**	892
	Allowance (written-back)/made during the financial year	**(574)**	22
	At 30 June	**340**	914
(viii)	Impaired loans and advances analysed by their economic purposes are as follows:		
	Purchase of transport vehicles	**110**	100
	Purchase of landed properties	**476**	474
	Working capital	**10,990**	–
		11,576	574
(ix)	Impaired loans and advances analysed by geographical distribution are as follows:		
	Malaysia	**11,576**	574

9 OTHER ASSETS

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Amounts due from subsidiary companies (a)	**–**	–	**572**	445
Deposits	**3,862**	5,097	**4**	5
Prepayments	**1,418**	2,609	**39**	40
Fee income receivables net of allowance for impairment losses of RM1,015,000 (30.06.2016: RM28,000) (b)	**16,076**	7,743	**–**	–
Cash collaterals pledged for derivative transactions	**22,531**	27,271	**–**	–
Other receivables	**10,373**	8,006	**–**	–
Manager's stocks and consumables	**512**	192	**–**	–
	54,772	50,918	**615**	490

(a) The amounts due from subsidiaries and related companies are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

for the financial year ended 30 June 2017

9 OTHER ASSETS (CONTINUED)

(b) Movements of allowance for impairment losses on fee income receivables is as follows:

	The Group	
	2017 RM'000	2016 RM'000
Individual assessment allowance		
At 1 July	**28**	28
Allowance made during the financial year	**987**	–
At 30 June	**1,015**	28

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 DEFERRED TAX ASSETS/(LIABILITIES)

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 statements of financial position:

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax assets		**90,948**	92,378	**–**	–
At 1 July		**92,378**	95,451	**–**	13
Charged to income statements	32	**(2,755)**	(1,683)	**–**	–
Credited/(charged) to equity		**1,325**	(1,390)	**–**	(13)
At 30 June		**90,948**	92,378	**–**	–
Deferred tax assets					
- settled more than 12 months		**68,237**	71,711	**–**	–
- settled within 12 months		**24,224**	24,297	**–**	–
Deferred tax liabilities					
- settled more than 12 months		**(1,240)**	(2,742)	**–**	–
- settled within 12 months		**(273)**	(888)	**–**	–
		90,948	92,378	**–**	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

11 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

The Group	Property and equipment RM'000	Financial investments available-for-sale RM'000	Unutilised tax credits RM'000	Provisions RM'000	Unutilised capital allowance RM'000	Total RM'000
At 1 July 2016	**(1,850)**	**(1,780)**	**89,692**	**6,316**	**–**	**92,378**
Credited/(charged) to income statements	**792**	**–**	**(4,079)**	**532**	**–**	**(2,755)**
Credited to equity	**–**	**1,325**	**–**	**–**	**–**	**1,325**
At 30 June 2017	**(1,058)**	**(455)**	**85,613**	**6,848**	**–**	**90,948**
At 1 July 2015	(1,291)	(390)	89,297	7,634	201	95,451
(Charged)/credited to income statements	(559)	–	395	(1,318)	(201)	(1,683)
Charged to equity	–	(1,390)	–	–	–	(1,390)
At 30 June 2016	(1,850)	(1,780)	89,692	6,316	–	92,378
The Company						
At 1 July 2016	**–**	**–**	**–**	**–**	**–**	**–**
Charged to equity	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2017	**–**	**–**	**–**	**–**	**–**	**–**
At 1 July 2015	–	13	–	–	–	13
Charged to equity	–	(13)	–	–	–	(13)
At 30 June 2016	–	–	–	–	–	–

12 INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2017 RM'000	2016 RM'000
Subsidiary companies:		
Unquoted shares at cost	**447,736**	447,736
Less: Accumulated impairment losses (a)	**(127,682)**	(127,682)
	320,054	320,054

(a) The impairment allowance was due to reduction in a subsidiary's estimated future cash flows. In determining the impairment allowance, management has assessed the recoverable amount, being the higher of the fair value less costs to sell and value in use.

The investment in subsidiary is included within the reportable segment of 'Investment holding and others'.

Notes to the Financial Statements

for the financial year ended 30 June 2017

12 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Details of the subsidiary companies are as follows:

		Effective equity interest		
Name of companies	Country of incorporation	2017 %	2016 %	Principal activities
Hong Leong Investment Bank Berhad and its subsidiaries	Malaysia	**100**	100	Investment banking, stockbroking business, futures broking and related financial services
- HLG Nominee (Tempatan) Sdn Bhd [1]	Malaysia	**–**	100	Dissolved
- HLG Nominee (Asing) Sdn Bhd [2]	Malaysia	**–**	100	Dissolved
- HLIB Nominees (Tempatan) Sdn Bhd	Malaysia	**100**	100	Nominee and custodian services for Malaysia clients
- HLIB Nominees (Asing) Sdn Bhd	Malaysia	**100**	100	Nominee and custodian services for foreign clients
- SSSB Jaya (1987) Sdn Bhd	Malaysia	**100**	100	In creditors' voluntary liquidation
HLG Capital Markets Sdn Bhd and its subsidiary	Malaysia	**100**	100	Investment holding
- HLG Principal Investments (L) Limited [3]	Labuan	**–**	100	Dissolved
HLG Securities Sdn Bhd	Malaysia	**100**	100	Investment holding
HLCB Assets Sdn Bhd	Malaysia	**100**	100	Investment holding
Hong Leong Asset Management Bhd	Malaysia	**100**	100	Unit trust management, fund management and sale of unit trusts
Unincorporated trust for ESOS	Malaysia	**–**	–	Special purpose vehicle for ESOS purpose
Hong Leong Dana Al-Izdihar	Malaysia	**100**	–	Unit trust funds

[1] The subsidiary was dissolved on 7 December 2016.
[2] The subsidiary was dissolved on 15 October 2016.
[3] The subsidiary was dissolved on 25 December 2016.

Significant judgments and assumptions used to determine the scope of the consolidation

Determining whether the Group has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances this determination will involve significant judgment, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgment may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether the group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

Notes to the Financial Statements

for the financial year ended 30 June 2017

12 INVESTMENT IN SUBSIDIARY COMPANIES (CONTINUED)

Significant judgments and assumptions used to determine the scope of the consolidation (continued)

There is also often considerable judgment involved in the ongoing assessment of control over structured entities. In this regard, where market conditions have deteriorated such that the other investors' exposures to the structure's variable returns have been substantively eliminated, the Group may conclude that the Group which acts as managers of the structured entity are acting as its principal and therefore will consolidate the structured entity.

An interest in equity voting rights exceeding 50% would typically indicate that the Group has control of an entity. However certain entities are excluded from consolidation because the Group does not have exposure to their variable returns.

Significant restrictions

Capital requirements

The Group's banking subsidiary, Hong Leong Investment Bank Berhad ("HLIB") is required to maintain minimum capital adequacy ratios in accordance with BNM Capital Adequacy Framework guidelines. The minimum capital adequacy requirement for common equity Tier 1 (CET 1) capital ratio and Tier 1 capital ratio are 4.5% and 6.0% respectively. The minimum regulatory capital adequacy requirement remains at 8.0% for capital ratio. Please refer to Note 38.

Liquidity requirements

HLIB is required to maintain liquidity pools to meet BNM's Liquidity Framework requirement.

Statutory requirements

HLIB is required to maintain non-interest bearing statutory deposits with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. The amount is determined at set percentages of total eligible liabilities.

13 STRUCTURED ENTITIES

A structured entity ("SE") is an entity in which voting or similar rights are not the dominant factor in deciding control. SEs are generally created to achieve a narrow and well defined objective with restrictions around their on going activities. Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Unconsolidated structured entities in which the Group has an interest

An interest in a SE is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Group. Such interests include holdings of debt securities, lending and derivatives.

The Group's banking subsidiary, HLIB has been involved in the setting up of the SEs to facilitate the sell down of the debt securities originated and arranged by HLIB. HLIB has power over the relevant activities but no significant exposure to these SEs.

Notes to the Financial Statements

for the financial year ended 30 June 2017

13 STRUCTURED ENTITIES (CONTINUED)

Unconsolidated structured entities in which the Group has an interest (continued)

The carrying amounts of assets and liabilities recognised in the Group's statement of financial position relating to the interests in unconsolidated SEs is summarised as below:

	The Group	
	2017 RM'000	2016 RM'000
Assets		
Derivative financial assets	**635**	1,271
Liabilities		
Other liabilities	**423**	1,274
Derivative financial liabilities	**1,644**	3,363

The Group's income and expenses in relation to unconsolidated SEs recognised is summarised as below:

	The Group	
	2017 RM'000	2016 RM'000
Interest income		
- Loans and advances	**–**	1,015
Non-interest income		
- Arranger fees	**–**	4,717
- Other fee income	**–**	3,158
- Realised (loss)/gain on interest rate swaps	**–**	(4,150)
- Unrealised (loss)/gain on revaluation of derivative financial assets and derivative financial liabilities - call options	**(636)**	(1,826)
- interest rate swaps	**1,386**	7,113
Interest expense		
- Interest rate swaps	**1,475**	2,585

Notes to the Financial Statements

for the financial year ended 30 June 2017

13 STRUCTURED ENTITIES (CONTINUED)

Unconsolidated structured entities in which the Group has an interest (continued)

The principal amount of the derivative financial instruments relating to unconsolidated SEs is summarised as below:

	The Group	
	2017 RM'000	2016 RM'000
Commitments and contingencies		
Interest rate related contracts:		
- Interest rate swaps	**35,000**	108,500
Equity related contracts:		
- Call options	**7,000**	7,000

The Group's maximum exposure to loss is the total of its on-balance sheet positions. Exposure to loss is mitigated through collateral held.

During the year, a SE has exercised its right to redeem all the bonds and the term loan has been fully settled.

14 PROPERTY AND EQUIPMENT

The Group 2017	Freehold land RM'000	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 2016	350	783	871	20,844	2,800	12,001	637	38,286
Additions	–	–	–	138	–	810	–	948
Disposals	–	–	–	(86)	(9)	(2)	(4)	(101)
Write-off	–	–	–	(45)	(34)	(44)	–	(123)
Adjustments	–	–	–	–	5	62	–	67
At 30 June 2017	350	783	871	20,851	2,762	12,827	633	39,077
Accumulated depreciation								
At 1 July 2016	–	34	127	18,593	2,523	9,592	622	31,491
Charge for the financial year	–	8	16	922	135	858	14	1,953
Disposals	–	–	–	(19)	(9)	(2)	(3)	(33)
Write-off	–	–	–	(44)	(28)	(43)	–	(115)
Adjustments	–	–	–	–	4	40	–	44
At 30 June 2017	–	42	143	19,452	2,625	10,445	633	33,340
Net book value								
At 30 June 2017	350	741	728	1,399	137	2,382	–	5,737

Notes to the Financial Statements

for the financial year ended 30 June 2017

14 PROPERTY AND EQUIPMENT (CONTINUED)

The Group 2016	Freehold land RM'000	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 2015	350	783	871	19,743	2,808	13,116	637	38,308
Additions	–	–	–	708	92	2,385	–	3,185
Disposals	–	–	–	–	(3)	–	–	(3)
Write-off	–	–	–	(340)	(97)	(3,500)	–	(3,937)
Reclassification	–	–	–	733	–	–	–	733
At 30 June 2016	350	783	871	20,844	2,800	12,001	637	38,286
Accumulated depreciation								
At 1 July 2015	–	26	111	17,865	2,449	11,954	593	32,998
Charge for the financial year	–	8	16	991	150	808	29	2,002
Disposals	–	–	–	–	(2)	–	–	(2)
Write-off	–	–	–	(336)	(74)	(3,170)	–	(3,580)
Reclassification	–	–	–	73	–	–	–	73
At 30 June 2016	–	34	127	18,593	2,523	9,592	622	31,491
Net book value								
At 30 June 2016	350	749	744	2,251	277	2,409	15	6,795

Notes to the Financial Statements

for the financial year ended 30 June 2017

15 OTHER INTANGIBLE ASSETS

Computer software	The Group 2017 RM'000	The Group 2016 RM'000
Cost		
At 1 July	**19,049**	15,824
Additions	**2,544**	3,958
Write-off	**(4)**	–
Reclassification	**–**	(733)
At 30 June	**21,589**	19,049
Amortisation		
At 1 July	**(13,609)**	(12,183)
Charge for the financial year	**(2,729)**	(1,499)
Write-off	**4**	–
Reclassification	**–**	73
At 30 June	**(16,334)**	(13,609)
At end of the financial year	**5,255**	5,440

16 GOODWILL

	The Group 2017 RM'000	The Group 2016 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 2017 RM'000	The Group 2016 RM'000
CGUs		
Investment banking and stockbroking	**28,986**	28,986
Unit trust management	**4,073**	4,073
	33,059	33,059

Notes to The Financial Statements

for the financial year ended 30 June 2017

16 GOODWILL (CONTINUED)

Impairment test on goodwill

The recoverable amount of CGUs have been determined based on value in use calculation. These calculations use pre-tax cash flows projections based on financial budgets approved by Directors covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates of 3.8% (30.06.2016: 3.8%), based on historical Gross Domestic Product ("GDP") growth rate of Malaysia on perpetual basis and discounted using pre-tax discount rates which reflect the specific risks relating to CGU.

The cash flows projections are derived based on a number of key factors including the past performance and management's expectations of the market development. The following are the discount rates used in determining the recoverable amount of each CGUs:

	The Group	
	2017	**2016**
	%	**%**
CGUs		
Investment banking and stockbroking	**8.3**	10.5
Unit trust management	**8.3**	10.5

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

For the current financial year, impairment was not required for goodwill arising from investment banking and stockbroking, and unit trust management. Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount to be lower than carrying amount.

17 DEPOSITS FROM CUSTOMERS

	The Group	
	2017	**2016**
	RM'000	**RM'000**
Fixed deposits	**648,867**	1,031,929
(i) Maturity structure of fixed deposits is as follows:		
Due within:		
- six months	**642,665**	1,030,876
- six months to one year	**6,202**	1,053
	648,867	1,031,929
(ii) The deposits are sourced from the following customers:		
Government and statutory bodies	**456,337**	873,906
Business enterprises	**171,984**	144,774
Individual	**20,546**	13,249
	648,867	1,031,929

Notes to The Financial Statements

for the financial year ended 30 June 2017

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2017 RM'000	2016 RM'000
Licensed banks	**778,053**	641,635
Licensed investment banks	**50,004**	–
Other financial institutions	**1,419,676**	1,263,135
	2,247,733	1,904,770

19 OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Obligations on securities sold under repurchased agreements are securities which the Group has sold from its investment 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 statements of financial position.

The financial assets sold under repurchase agreements are as follows:

	The Group	
	2017 RM'000	2016 RM'000
Financial investments held-to-maturity	**155,077**	–

20 OTHER LIABILITIES

		The Group		The Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Amount due to other related companies	(a)	**118**	97	**–**	–
Remisiers' trust deposits		**13,786**	12,998	**–**	–
Other payables and accrued liabilities		**88,430**	87,648	**613**	617
Post employment benefits obligation:					
- defined contribution plan		**202**	197	**–**	–
		102,536	100,940	**613**	617

(a) The amount due to other related companies is unsecured, interest free and repayable on demand.

Notes to the Financial Statements

for the financial year ended 30 June 2017

21 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 analysed below.

The Group 2017	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	**5,015,000**	**12,806**	**(23,881)**
- futures	**322,498**	**337**	**–**
- cross currency swaps	**171,770**	**83**	**(16,724)**
Foreign exchange related contracts:			
- foreign currency swaps	**1,520,828**	**5,883**	**(7,345)**
- foreign currency forwards	**73,399**	**171**	**(6)**
- foreign currency spots	**17,735**	**1**	**(3)**
Equity related contracts:			
- call options	**7,000**	**635**	**–**
	7,128,230	**19,916**	**(47,959)**
The Group			
2016			
Interest rate related contracts:			
- interest rate swaps	5,413,500	19,664	(36,729)
- futures	139,893	–	(1,567)
- cross currency swaps	120,945	3,412	(11,085)
Foreign exchange related contracts:			
- foreign currency swaps	2,308,659	18,347	(30,597)
- foreign currency forwards	45,938	–	(696)
Equity related contracts:			
- futures	5,032	–	(11)
- call options	7,000	1,271	–
	8,040,967	42,694	(80,685)

Notes to the Financial Statements

for the financial year ended 30 June 2017

22 SUBORDINATED OBLIGATIONS

	The Group	
	2017 RM'000	2016 RM'000
RM50.0 million Tier 2 subordinated notes, at par	**50,000**	50,000
Add: Interest payable	**392**	407
	50,392	50,407
Less: Unamortised discounts	**(130)**	(160)
	50,262	50,247

On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB") had completed the first issuance of RM50.0 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50.0 million Sub-Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub-Notes shall be subject to the approval of BNM.

The Sub-Notes constitute unsecured liabilities of HLIB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLIB in accordance with the terms and conditions of the issue, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub-Notes. The Sub-Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLIB.

23 SHARE CAPITAL

	The Group and The Company			
	2017		2016	
	Number of ordinary shares	RM'000	Number of ordinary shares	RM'000
Authorised share capital*:				
Ordinary shares of RM1.00 each	**–**	**–**	500,000	500,000
Ordinary share issued and fully paid:				
At 1 July - Ordinary shares of RM1.00 each	**246,896**	**246,896**	246,896	246,896
Transition to no-par value regime under the Companies Act 2016 *	**–**	**–**	–	–
At 30 June - Ordinary shares with no par value (2016: par value of RM1.00 each)	**246,896**	**246,896**	246,896	246,896

* The new Companies Act 2016 ("New Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

Notes to the Financial Statements

for the financial year ended 30 June 2017

24 RESERVES

		The Group		The Company	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
Retained profits	(i)	**499,973**	335,301	**219,963**	189,315
Statutory reserve	(ii)	**–**	113,482	**–**	–
Regulatory reserve	(iii)	**2,504**	3,563	**–**	–
Fair value reserve	(iv)	**1,422**	6,623	**(14)**	(33)
General reserve		**543**	543	**–**	–
Exchange fluctuation reserve	(v)	**–**	(16)	**–**	–
		504,442	459,496	**219,949**	189,282

(i) Retained profits

The Company can distribute dividends out of its entire retained earnings under the single-tier system.

(ii) Statutory reserve

The requirement to maintain a statutory reserve funds has been removed pursuant to BNM's Capital Fund Policy with effect from 3 May 2017. Consequently, the statutory reserve amount has been transferred to the retained profits.

(iii) Regulatory reserve

The banking subsidiary, HLIB is required to maintain in aggregate collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding loans and advances, net of individual impairment allowances. The transfer to regulatory reserve is by debiting the retained profits.

(iv) Fair value reserve

Fair value reserve arises from a change in the fair value of financial investments available-for-sale. The gains or losses are transferred to the profit or loss upon de-recognition or impairment of such financial investments.

(v) Exchange fluctuation reserve

Exchange fluctuation reserve arises from the translation of net assets of foreign subsidiary.

25 TREASURY SHARES

Treasury shares for ESOS scheme

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

Notes to the Financial Statements

for the financial year ended 30 June 2017

25 TREASURY SHARES (CONTINUED)

Treasury shares for ESOS scheme (continued)

In accordance with MFRS 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 statements of financial position. As at reporting date, the number of shares held by the appointed trustee for the Group and the Company are as follows:

	2017		2016	
The Group	**Number of trust shares held '000**	**Cost RM'000**	**Number of trust shares held '000**	**Cost RM'000**
As at 1 July/30 June	**5,613**	**6,031**	5,613	6,031
The Company				
As at 1 July/30 June	**5,508**	**5,918**	5,508	5,918

26 INTEREST INCOME

	The Group		The Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Loans and advances	**19,026**	20,508	**–**	–
Money at call and deposit placements with financial institutions	**2,675**	4,245	**337**	148
Financial assets held-for-trading	**40,852**	38,079	**–**	–
Financial investments available-for-sale	**39,959**	34,744	**–**	–
Financial investments held-to-maturity	**27,754**	14,233	**–**	–
Derivative financial instruments	**8,032**	5,836	**–**	–
Others	**11,356**	9,817	**–**	–
	149,654	127,462	**337**	148

27 INTEREST EXPENSE

	The Group		The Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Deposits and placements of banks and other financial institutions	**30,340**	23,053	**–**	–
Deposits from customers	**57,110**	47,668	**–**	–
Derivative financial instruments	**15,012**	11,408	**–**	–
Subordinated obligations	**2,680**	2,710	**–**	–
Others	**717**	270	**–**	–
	105,859	85,109	**–**	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

28 NON-INTEREST INCOME

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fee income				
Brokerage income	**59,321**	52,535	**–**	–
Unit trust fee income	**27,260**	20,750	**–**	–
Commissions from future contracts	**620**	472	**–**	–
Fees on loans and advances	**785**	320	**–**	–
Arranger fees	**9,633**	15,428	**–**	–
Placement fees	**12,451**	9,001	**–**	–
Corporate advisory fees	**5,630**	6,204	**–**	–
Underwriting commissions	**1,795**	1,206	**–**	–
Guarantee fees	**–**	52	**–**	–
Other fee income	**13,792**	8,791	**–**	208
	131,287	114,759	**–**	208
Net income from securities				
Net realised gain/(loss) arising from sale/early redemption of:				
- Financial assets held-for-trading	**6,022**	15,090	**–**	–
- Financial investments available-for-sale	**5,927**	1,114	**(86)**	(19)
- Financial investments held-to-maturity	**189**	–	**–**	–
- Derivative financial instruments	**18,129**	(13,414)	**–**	–
Net unrealised (loss)/gain on revaluation of:				
- Financial assets held-for-trading	**(4,531)**	(2,729)	**–**	–
- Derivative financial instruments	**9,937**	(24,272)	**–**	–
Dividend income from:				
- Financial assets held-for-trading	**2,173**	1,937	**–**	–
- Financial investments available-for-sale	**5,891**	5,659	**4,099**	4,980
- Subsidiary companies	**–**	–	**57,300**	43,200
	43,737	(16,615)	**61,313**	48,161
Other income				
Gain on disposal of property and equipment	**121**	4	**–**	–
(Loss)/gain on liquidation of a subsidiary	**(7)**	589	**–**	–
Foreign exchange (loss)/gain	**(17,284)**	30,920	**11**	–
Other non-operating income	**366**	885	**207**	284
	(16,804)	32,398	**218**	284
	158,220	130,542	**61,531**	48,653

Notes to the Financial Statements

for the financial year ended 30 June 2017

29 OVERHEAD EXPENSES

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Personnel costs	**76,103**	68,658	**470**	591
Establishment costs	**18,424**	18,967	**87**	159
Marketing expenses	**3,348**	2,876	**36**	5
Administration and general expenses	**20,035**	17,962	**1,533**	1,027
	117,910	108,463	**2,126**	1,782

(i) Personnel costs comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries, bonus and allowances	**64,203**	56,411	**194**	306
Other employees benefits	**11,900**	12,247	**276**	285
	76,103	68,658	**470**	591

(ii) Establishment costs comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Depreciation of property and equipment	**1,953**	2,002	**–**	–
Amortisation of intangible assets - computer software	**2,729**	1,499	**–**	–
Rental of premises	**4,603**	6,285	**–**	–
Information technology expenses	**6,390**	5,474	**21**	19
Others	**2,749**	3,707	**66**	140
	18,424	18,967	**87**	159

(iii) Marketing expenses comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Advertisement and publicity	**673**	507	**–**	–
Travelling and accomodation	**479**	517	**–**	4
Others	**2,196**	1,852	**36**	1
	3,348	2,876	**36**	5

Notes to the Financial Statements

for the financial year ended 30 June 2017

29 OVERHEAD EXPENSES (CONTINUED)

(iv) Administration and general expenses comprise the following:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Communication expenses	**1,476**	1,369	**11**	13
Stationery and printing expenses	**986**	1,034	**10**	9
Management fees	**4,013**	3,643	**388**	462
Professional fees	**4,654**	3,443	**360**	–
Property and equipment written off	**8**	357	**–**	–
Auditors' remuneration:				
- statutory audit fees	**421**	366	**86**	60
- regulatory related fees	**50**	50	**11**	11
- tax compliance fees	**15**	14	**–**	–
- other fees	**273**	20	**25**	–
Others	**8,143**	7,666	**642**	472
	20,035	17,962	**1,533**	1,027

Included in the overhead expenses of the Group and the Company are Directors' remuneration amounting to RM455,000 (2016: RM455,000) and RM360,000 (2016: RM360,000) respectively.

There was no indemnity given or insurance effected for any auditor of the Group and the Company during the annual financial year and its comparative financial year.

Notes to the Financial Statements

for the financial year ended 30 June 2017

30 (ALLOWANCE FOR)/WRITE-BACK OF IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER LOSSES

	The Group	
	2017 RM'000	2016 RM'000
(Allowance for)/write-back of losses on loans and advances:		
(a) Individual assessment allowance:		
- made during the financial year	**(10)**	–
(b) Collective assessment allowance:		
- written-back/(made) during the financial year	**574**	(22)
	564	(22)
Bad debts on loans and advances		
- recovered	**–**	5
Write-back of/(allowance for) losses on clients' and brokers' balances:		
(a) Individual assessment allowance:		
- made during the financial year	**(245)**	(150)
- written-back during the financial year	**110**	229
(b) Collective assessment allowance:		
- (made)/written-back during the financial year	**(11)**	6
	(146)	85
Bad debts on clients and brokers' balances		
- written-off	**(12)**	–
- recovered	**513**	–
Allowance for losses on fee income receivables:		
(a) Individual assessment allowance:		
- made during the financial year	**(987)**	–
	(987)	–
	(68)	68

Notes to the Financial Statements

for the financial year ended 30 June 2017

31 DIRECTORS' REMUNERATION

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors of the Company				
Non-Executive Directors:				
Fee:				
YBhg Tan Sri Quek Leng Chan	**–**	–	**–**	–
Mr Tan Kong Khoon (Appointed on 24.02.2016)	**–**	–	**–**	–
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	**219**	219	**124**	124
YBhg Dato' Mohamed Nazim bin Abdul Razak	**118**	118	**118**	118
YBhg Dato' Ahmad Fuaad bin Mohd Dahalan	**118**	118	**118**	118
Mr Quek Kon Sean (Resigned on 09.07.2016)	**–**	–	**–**	–
	455	455	**360**	360
Directors' of subsidiaries	**4,460**	–	**–**	–
Total director's remuneration	**4,915**	455	**360**	360

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

The Directors' Remuneration in the current financial year represents remuneration for Directors' of the Group, the Company and its subsidiaries to comply with the requirements of the Companies Act 2016. The comparative figures have not been restated to include the Directors in the subsidiaries of the Company. The names of directors of subsidiaries and their remuneration details are set out in the respective subsidiary's statutory accounts and the said information is deemed incorporated herein by such reference and made a part thereof.

During the financial year, Directors and Officers of the Group are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Group was RM10 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by the Group was RM67,688 and the apportioned amount of the said premium paid by the Company was RM1,700.50.

Notes to the Financial Statements

for the financial year ended 30 June 2017

32 TAXATION

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Malaysian income tax:				
- current financial year's charge	**2,285**	870	**127**	148
- (Over)/under provision in prior financial years	**(88)**	70	**–**	(52)
	2,197	940	**127**	96
Deferred taxation (Note 11):				
- relating to origination and reversal of temporary differences	**2,755**	1,683	**–**	–
	2,755	1,683	**–**	–
	4,952	2,623	**127**	96

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before taxation	**84,037**	64,500	**59,742**	47,019
Tax calculated at a rate of 24% (2016: 24%)	**20,169**	15,480	**14,338**	11,285
Tax effects of:				
- Income not subject to tax	**(2,382)**	(2,208)	**(14,718)**	(11,559)
- Expenses not deductible for tax purposes	**1,335**	1,383	**507**	422
- Utilisation of unutilised tax losses previously not recognised	**(489)**	–	**–**	–
- Recognition of unutilised tax credit previously not recognised	**(13,341)**	(12,091)	**–**	–
- Origination of temporary differences previously not recognised	**(252)**	(11)	**–**	–
- (Over)/under provision in prior financial years	**(88)**	70	**–**	(52)
Tax expense for the financial year	**4,952**	2,623	**127**	96

Unrecognised deferred tax assets

	The Group	
	2017 RM'000	2016 RM'000
Tax losses		
Unutilised tax losses for which the related tax credit has not been recognised in the financial statements	**21,091**	23,127

Notes to the Financial Statements

for the financial year ended 30 June 2017

32 TAXATION (CONTINUED)

Unrecognised deferred tax assets (continued)

	The Group	
	2017 RM'000	2016 RM'000
Tax credit		
Tax credit which has not been recognised in the financial statements	**108,489**	121,830
Capital allowances		
Unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	**391**	391

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, tax credit and capital allowances can be utilised.

The unused tax losses, tax credit and capital allowances do not expire under current tax legislation.

33 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	
		2017	2016
(a)	**Basic earnings per share**		
	Net profit attributable to equity holders of the Company (RM'000)	**79,085**	61,877
	Weighted average number of ordinary shares in issue ('000)	**241,283**	241,283
	Basic earnings per share (sen)	**32.8**	25.6

(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 2017 and 30 June 2016.

Notes to the Financial Statements

for the financial year ended 30 June 2017

34 DIVIDENDS

Dividends declared and proposed as follows:-

	The Group			
	2017		2016	
	Single-tier dividend per share Sen	Amount of dividend RM'000	Single-tier dividend per share Sen	Amount of dividend RM'000
Ordinary shares	**19.0**	**46,910**	12.0	29,628

At the forthcoming Annual General Meeting, the Directors of the Company recommend the payment of a final single-tier dividend of 19.0 sen per share on the Company's issued and paid-up ordinary shares of RM246,896,668 comprising 246,896,668 of ordinary shares amounting to RM46.9 million for the financial year ended 30 June 2017.

Dividends recognised as distribution to ordinary equity holders of the Company:

	The Group			
	2017		2016	
	Single-tier dividend per share Sen	Amount of dividend RM'000	Single-tier dividend per share Sen	Amount of dividend RM'000
Ordinary shares	**12.0**	**28,954**	8.5	20,509

	The Company			
	2017		2016	
	Single-tier dividend per share Sen	Amount of dividend RM'000	Single-tier dividend per share Sen	Amount of dividend RM'000
Ordinary shares	**12.0**	**28,967**	8.5	20,518

In respect of the financial year ended 30 June 2016, dividend paid on the shares held in trust pursuant to the Company's Executive Share Option Scheme ("ESOS") which are classified as treasury shares held for ESOS scheme are not accounted for in the total equity. An amount of RM673,524 (Group) and RM660,924 (Company), being dividend paid for these shares was added back to the appropriation of retained profits.

Notes to the Financial Statements

for the financial year ended 30 June 2017

35 COMMITMENTS AND CONTINGENCIES

(a) Investment banking subsidiary company related commitments and contingencies

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

The commitments and contingencies are as follows:

The Group	2017 Principal amount RM'000	2016 Principal amount RM'000
Commitments and contingencies		
Direct credit substitutes	**1,000**	1,000
Obligations under underwriting agreement	**130,000**	–
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	**10,352**	–
Any commitment that are unconditionally cancelled at any time by the Group without prior notice		
- maturity less than one year	**661,322**	686,780
Other commitments, such as formal standby facilities and credit lines		
- maturity less than one year	**326**	2,165
- maturity more than one year	**–**	589
	803,000	690,534
Derivative financial instruments		
Interest rate related contracts^:		
- One year or less	**1,778,383**	1,388,708
- Over one year to five years	**3,485,885**	3,630,630
- Over five years	**245,000**	655,000
Foreign exchange related contracts^:		
- One year or less	**1,611,962**	2,354,597
Equity related contracts^:		
- One year or less	**–**	5,032
- Over one year to five years	**7,000**	7,000
	7,128,230	8,040,967
	7,931,230	8,731,501

^ These derivatives are revalued at gross position basis and the fair value have been reflected in Note 21 to the financial statements as derivative financial assets or derivatives financial liabilities.

Notes to the Financial Statements

for the financial year ended 30 June 2017

35 COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Other commitments and contingencies - unsecured

Hong Leong Asset Management Bhd, a wholly owned subsidiary of the Company, is the Manager of Hong Leong Consumer Products Sector Fund ("Funds"). The Company provided a guarantee to Deutsche Trustees Malaysia Berhad, the trustee of the Funds, that if the 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 the funds was above the minimum of RM1,000,000 as at 30 June 2017.

36 CAPITAL COMMITMENTS

	The Group	
	2017 RM'000	2016 RM'000
Property and equipment:		
- Approved and contracted but not provided for	**1,872**	4,472
- Approved but not contracted for	**5,535**	1,251
	7,407	5,723

37 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	
	2017 RM'000	2016 RM'000
Less than one year	**2,814**	4,398
More than one year but less than five years	**40**	2,302
More than five years	**–**	1

38 CAPITAL MANAGEMENT

The Group's capital is in relation to its risk profile and strategic objectives set by the Board to meet shareholders' requirements and expectations. The components of the total capital are disclosed in Note 23 and 24. The Group's banking subsidiary's Capital Management framework for maintaining appropriate capital levels has complied with the requirements of Bank Negara Malaysia's Revised Risk Weighted Capital Adequacy Framework. The capital adequacy ratios of the banking subsidiary are disclosed in Note 39.

Notes to the Financial Statements

for the financial year ended 30 June 2017

39 CAPITAL ADEQUACY

The Group's banking subsidiary's regulatory capital is governed by BNM Capital Adequacy Framework guidelines. With effect from 1 January 2016, the capital adequacy ratios of the banking subsidiary are computed in accordance with BNM's Capital Adequacy Framework issued on 13 October 2015. The Framework sets out the approach for computing the regulatory capital adequacy ratios, as well as the levels of the ratios at which banking institutions are required to operate. The Framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. The minimum capital adequacy requirement for common equity Tier 1 ("CET 1") capital ratio and Tier 1 capital ratio are 4.5% and 6.0% respectively. The minimum regulatory capital adequacy requirement remains at 8.0%.

The risk-weighted assets ("RWA") of the banking subsidiary has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation.

(i) The capital adequacy ratios of the banking subsidiaries are as follows:

	HLIB	
	2017	2016
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") capital ratio	**29.744%**	29.202%
Tier 1 capital ratio	**29.744%**	29.202%
Total capital ratio	**33.912%**	33.576%
After deducting proposed dividends: (1)		
CET1 capital ratio	**25.398%**	24.986%
Tier 1 capital ratio	**25.398%**	24.986%
Total capital ratio	**29.566%**	29.360%

Note:
(1) Proposed dividends of RM55,000,000 (2016: RM52,300,000).

Notes to the Financial Statements

for the financial year ended 30 June 2017

39 CAPITAL ADEQUACY (CONTINUED)

(ii) The components of CET1, Tier 1 and total capital of the banking subsidiaries are as follows:

	HLIB 2017 RM'000	HLIB 2016 RM'000
CET1 capital		
Paid-up ordinary share capital	**252,950**	165,000
Share premium	**–**	87,950
Retained profits	**246,910**	36,357
Other reserves	**1,440**	202,504
Less: goodwill and intangibles	**(33,796)**	(34,379)
Less: deferred tax assets	**(90,153)**	(91,882)
Less: investment in subsidiary companies	**(160)**	(217)
Less: 55% of cumulative gains of financial instruments available-for-sale	**(792)**	(3,100)
Total CET1 capital	**376,399**	362,233
Tier 1 capital	**376,399**	362,233
Tier 2 capital		
Collective assessment allowance [2] and regulatory reserve [3]	**2,783**	4,394
Subordinated obligations	**50,000**	50,000
Regulatory adjustments:		
- Investment in subsidiary companies	**(40)**	(144)
Total Tier 2 capital	**52,743**	54,250
Total capital	**429,142**	416,483

Note:

[2] Excludes collective assessment allowance attributable to loans and advances classified as impaired.

[3] Includes the qualifying regulatory reserve for non-impaired loans and advances of RM2,504,000 (2016: RM3,563,000).

(iii) Breakdown of risk-weighted assets of the banking subsidiary company in the various risk weights:

	HLIB 2017 RM'000	HLIB 2016 RM'000
Credit risk	**461,963**	520,091
Market risk	**517,433**	416,042
Operational risk	**286,064**	304,287
	1,265,460	1,240,420

Notes to the Financial Statements

for the financial year ended 30 June 2017

40 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties 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 12	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: - All Directors of the Company and its holding company - Key management personnel of the Company who have the authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled 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 2017

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related parties transactions

Transactions with related parties are as follows:

The Group 2017	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
Income			
Interest income	–	17,911	–
Brokerage income	–	4,814	125
Arranger fee	–	80	–
Other fee income	45	8,414	–
Loss on securities and derivatives	–	(2,737)	–
	45	28,482	125
Expenses			
Interest expense	–	31,220	493
Rental	–	2,615	–
Management fees	4,013	–	–
Others	–	14,619	–
	4,013	48,454	493
Amounts due from:			
Cash and short-term funds	–	10,300	–
Financial assets held-for-trading	–	13,593	–
Financial investments available-for-sale	–	201,063	–
Derivative financial assets	–	2,175	–
Clients' and brokers' balances	–	1,724	–
Other assets	232	783	–
	232	229,638	–
Amounts due to:			
Deposits from customers	–	3,225	11,124
Deposits and placements of banks and other financial institutions	–	434,238	–
Derivative financial liabilities	–	2,562	–
Clients' and brokers' balances	–	20,149	–
Other liabilities	87	454	360
	87	460,628	11,484
Commitments and contingencies			
Derivative financial instruments	–	42,000	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related parties transactions (continued)

The Company 2017	Parent company RM'000	Subsidiaries RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Interest income	–	–	337	–
Dividends	–	57,300	–	–
Guarantee fee	–	2	–	–
Others	–	205	–	–
	–	57,507	337	–
Expenses				
Management fees	388	–	–	–
Others	–	–	54	–
	388	–	54	–
Amounts due from:				
Cash and short-term funds	–	–	487	–
Financial investments available-for-sale	–	–	140,168	–
Other assets	–	572	–	–
	–	572	140,655	–
Amounts due to:				
Other liabilities	–	–	–	360
	–	–	–	360

Notes to the Financial Statements

for the financial year ended 30 June 2017

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related parties transactions (continued)

Transactions with related parties are as follows:

The Group 2016	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
Income			
Interest income	–	25,101	–
Brokerage income	–	4,703	74
Corporate advisory fee	220	380	–
Arranger fee	–	4,810	–
Other fee income	146	7,688	–
Gain on securities and derivatives	–	8,019	–
	366	50,701	74
Expenses			
Interest expense	–	35,598	499
Rental	–	3,732	–
Management fees	3,618	–	–
Others	4	4,695	–
	3,622	44,025	499
Amounts due from:			
Cash and short-term funds	–	12,777	–
Financial assets held-for-trading	–	287,231	–
Financial investments available-for-sale	–	137,870	–
Derivative financial assets	–	3,868	–
Clients' and brokers' balances	–	11,030	–
Other assets	–	855	–
	–	453,631	–
Amounts due to:			
Deposits from customers	–	1,264	13,249
Deposits and placements of banks and other financial institutions	–	697,568	–
Derivative financial liabilities	–	4,879	–
Clients' and brokers' balances	–	696	–
Other liabilities	182	1,305	300
	182	705,712	13,549
Commitments and contingencies			
Derivative financial instruments	–	115,500	–

Notes to the Financial Statements

for the financial year ended 30 June 2017

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Related parties transactions (continued)

The Company 2016	Parent company RM'000	Subsidiaries RM'000	Other related companies RM'000	Key management personnel RM'000
Income				
Dividends	–	43,200	–	–
Guarantee fee	–	2	–	–
Others	–	282	–	–
	–	43,484	–	–
Expenses				
Management fee	462	–	–	–
Others	–	–	79	–
	462	–	79	–
Amounts due from:				
Cash and short-term funds	–	–	1,062	–
Financial investments available-for-sale	–	–	109,082	–
Other assets	–	445	–	–
	–	445	110,144	–
Amounts due to:				
Other liabilities	115	–	–	300
	115	–	–	300

(c) Key management personnel

Key management compensation

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries and other short-term employee benefits	**9,277**	9,946	**111**	71
Fees	**455**	455	**360**	360
Option charge arising from ESOS granted	**–**	–	**–**	–
	9,732	10,401	**471**	431

Included in the above is the Directors' remuneration which is disclosed in Note 31.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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. The Group has determined its Group Chief Operating Officer as its chief operating decision-maker.

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.

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 stockbroking	- Investment banking, stockbroking business, future broking and related financial services
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 2017

41 SEGMENTAL INFORMATION (CONTINUED)

The Group 2017	Investment banking and stockbroking 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	163,732	27,780	10,503	–	202,015
Inter-segment revenue	(48)	(2)	57,318	(57,268)	–
Total revenue [1]	163,684	27,778	67,821	(57,268)	202,015
Overhead expenses	(95,635)	(19,699)	(2,576)	–	(117,910)
Net write-back of impairment losses on loans and advances and other losses	(68)	–	–	–	(68)
Results					
Segment results from operations	67,981	8,079	65,245	(57,268)	84,037
Tax expense for the financial year					(4,952)
Net profit for the financial year					79,085
Assets					
Segment assets	3,963,908	72,052	544,856	(316,830)	4,263,986
Liabilities					
Segment liabilities	3,460,104	58,075	1,024	(524)	3,518,679
Other informations					
Capital expenditure	2,927	565	–	–	3,492
Depreciation of property and equipment	1,604	349	–	–	1,953
Amortisation of intangible assets - computer software	2,657	72	–	–	2,729
Write-back of allowance for losses on loans and advances	564	–	–	–	564
Allowance for losses on clients' and brokers' balances	146	–	–	–	146
Bad debts on clients' and brokers' balances recovered	501	–	–	–	501
Allowance for losses on other assets	987	–	–	–	987

Note:
1. Total segment revenue comprises of net interest income and non-interest income.

Notes to the Financial Statements

for the financial year ended 30 June 2017

41 SEGMENTAL INFORMATION (CONTINUED)

The Group 2016	Investment banking and stockbroking 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	144,863	21,362	6,670	–	172,895
Inter-segment revenue	(13)	(2)	43,284	43,269	–
Total revenue [1]	144,850	21,360	49,954	43,269	172,895
Overhead expenses	(87,270)	(19,117)	(2,110)	34	(108,463)
Net impairment losses on loans advances and other assets	68	–	–	–	68
Result					
Segment results from operations	57,648	2,243	47,844	(43,235)	64,500
Taxation					(2,623)
Net profit for the financial year					61,877
Assets					
Segment assets	3,895,975	59,364	510,873	(317,155)	4,149,057
Liabilities					
Segment liabilities	3,400,601	46,750	2,132	(787)	3,448,696
Other informations					
Capital expenditure	6,349	794	–	–	7,143
Depreciation of property and equipment	1,647	355	–	–	2,002
Amortisation of intangible assets – computer software	1,454	45	–	–	1,499
Allowance for losses on loans and advances	22	–	–	–	22
Bad debts on loans and advances recovered	5	–	–	–	5
Allowance for losses on clients' and brokers' balances	85	–	–	–	85

Note:
1. Total segment revenue comprises of net interest income and non-interest income.

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS

(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 mitigate 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.

(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 reporting date.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business unit and risk management to mitigate the effect of this movement in key variables. In reality, the Group and the Company proactively seek to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(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 +/-100 basis points ("bps") parallel shift in the interest rate.

	The Group	
	Impact on profit after tax	Impact on equity
2017	**RM'000**	**RM'000**
+100 bps	**18,855**	**(25,652)**
-100 bps	**(18,855)**	**25,652**
2016		
+100 bps	1,916	(19,665)
-100 bps	(1,916)	19,665

(ii) Foreign currency sensitivity analysis

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

Impact of profit after tax by currency

	2017		2016	
The Group	+1% RM'000	-1% RM'000	+1% RM'000	-1% RM'000
USD	**(21)**	**21**	(19)	19
SGD	**2**	**(2)**	(1)	1
Others	**(2)**	**2**	(10)	10
	(21)	**21**	(30)	30

(iii) Equity prices sensitivity analysis

The Group's exposure to equity securites price risk arises from investments held by the Group and classified in the statements of financial position as financial assets held-for-trading and financial investments available-for-sale. The Company does not has significant exposure to equity price risks.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 financial assets and financial 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.

	Non-trading book							
The Group 2017	**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	109,096	–	–	–	–	158,366	–	267,462
Clients' and brokers' balances	–	–	–	–	–	270,967	–	270,967
Securities purchased under resale agreements	–	–	35,000	–	–	123	–	35,123
Financial assets held-for-trading	–	–	–	–	–	–	1,102,647	1,102,647
Financial investments available-for-sale	–	26,935	102,857	521,514	311,850	210,822	–	1,173,978
Financial investments held-to-maturity	–	50,047	84,125	454,092	310,500	10,451	–	909,215
Loans and advances	211,293	–	14,674	10,960	64	(399)	–	236,592
Other assets	–	–	–	–	–	53,354	–	53,354
Derivative financial assets	–	–	–	–	–	–	19,916	19,916
Statutory deposits with Bank Negara Malaysia	–	–	–	–	–	58,100	–	58,100
Total assets	**320,389**	**76,982**	**236,656**	**986,566**	**622,414**	**761,784**	**1,122,563**	**4,127,354**

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Interest rate risk (continued)

	← Non-trading book					→		
The Group 2017	**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								
Clients' and brokers' balances	–	–	–	–	–	271,738	–	271,738
Deposits from customers	534,215	106,964	6,101	–	–	1,587	–	648,867
Deposits and placements of banks and other financial institutions	1,905,269	308,695	31,002	–	–	2,767	–	2,247,733
Obligations on securities sold under repurchase agreements	–	149,111	–	–	–	–	–	149,111
Other liabilities	–	–	–	–	–	102,536	–	102,536
Derivative financial liabilities	–	–	–	–	–	–	47,959	47,959
Subordinated obligations	–	–	–	–	49,870	392	–	50,262
Total liabilities	2,439,484	564,770	37,103	–	49,870	379,020	47,959	3,518,206
Net interest sensitivity gap	(2,119,095)	(487,788)	199,553	986,566	572,544			
Direct credit substitutes	–	–	–	–	–	1,000		
Credit related commitments and contingencies	–	–	–	–	–	802,000		
Net interest sensitivity gap	–	–	–	–	–	803,000		

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Interest rate risk (continued)

	Non-trading book							
The Group 2016	**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	192,581	–	–	–	–	103,741	–	296,322
Clients' and brokers' balances	–	–	–	–	–	197,034	–	197,034
Deposits and placements with banks and other financial institutions	–	40,315	–	–	–	44	–	40,359
Financial assets held-for-trading	–	–	–	–	–	–	1,418,901	1,418,901
Financial investments available-for-sale	–	–	210,792	490,655	155,392	175,465	–	1,032,304
Financial investments held-to-maturity	–	–	28,509	291,404	201,883	6,304	–	528,100
Loans and advances	288,578	20,000	–	64,336	71	(823)	–	372,162
Other assets	–	–	–	–	–	48,309	–	48,309
Derivative financial assets	–	–	–	–	–	–	42,694	42,694
Statutory deposits with Bank Negara Malaysia	–	–	–	–	–	32,400	–	32,400
Total assets	481,159	60,315	239,301	846,395	357,346	562,474	1,461,595	4,008,585

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Interest rate risk (continued)

The Group 2016	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								
Clients' and brokers' balances	–	–	–	–	–	279,919	–	279,919
Deposits from customers	969,039	11,880	50,018	–	–	992	–	1,031,929
Deposits and placements of banks and other financial institutions	1,633,229	226,325	43,702	–	–	1,514	–	1,904,770
Other liabilities	–	–	–	–	–	100,940	–	100,940
Derivative financial liabilities	–	–	–	–	–	–	80,685	80,685
Subordinated obligations	–	–	–	–	49,840	407	–	50,247
Total liabilities	2,602,268	238,205	93,720	–	49,840	383,772	80,685	3,448,490
Net interest sensitivity gap	(2,121,109)	(177,890)	145,581	846,395	307,506			
Direct credit substitutes	–	–	–	–	–	1,000		
Credit related commitments and contingencies	–	–	–	–	–	689,534		
Net interest sensitivity gap	–	–	–	–	–	690,534		

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Interest rate risk (continued)

	Non-trading book							
The Company 2017	**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	–	–	–	–	–	490	–	490
Financial investments available-for-sale	–	–	–	–	–	140,168	–	140,168
Other assets	–	–	–	–	–	576	–	576
Total assets	–	–	–	–	–	141,234	–	141,234
Liabilities								
Other liabilities	–	–	–	–	–	613	–	613
Total liabilities	–	–	–	–	–	613	–	613
Net interest sensitivity gap	–	–	–	–	–			
Direct credit substitutes	–	–	–	–	–	–		
Credit related commitments and contingencies	–	–	–	–	–	–		
Net interest sensitivity gap	–	–	–	–	–	–		

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Interest rate risk (continued)

	Non-trading book							
The Company 2016	**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	–	–	–	–	–	1,065	–	1,065
Financial investments available-for-sale	–	–	–	–	–	109,082	–	109,082
Other assets	–	–	–	–	–	450	–	450
Total assets	–	–	–	–	–	110,597	–	110,597
Liabilities								
Other liabilities	–	–	–	–	–	617	–	617
Total liabilities	–	–	–	–	–	617	–	617
Net interest sensitivity gap	–	–	–	–	–			
Direct credit substitutes	–	–	–	–	–	–		
Credit related commitments and contingencies	–	–	–	–	–	–		
Total interest rate sensitivity gap	–	–	–	–	–	–		

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline:

The Group 2017	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	260,412	7,050	–	–	–	–	–	267,462
Clients' and brokers' balances	270,967	–	–	–	–	–	–	270,967
Securities purchased under resale agreements	–	–	–	35,123	–	–	–	35,123
Financial assets held-for-trading	12	300,652	430,692	100,253	–	229,491	41,547	1,102,647
Financial investments available-for-sale	–	–	27,185	90,184	13,075	842,226	201,308	1,173,978
Financial investments held-to-maturity	–	–	50,636	–	84,810	773,769	–	909,215
Loans and advances	210,894	–	–	14,674	–	11,024	–	236,592
Derivative financial assets	484	2,798	2,005	746	351	13,532	–	19,916
Other assets*	–	–	–	–	47,868	–	200,218	248,086
Total assets	742,769	310,500	510,518	240,980	146,104	1,870,042	443,073	4,263,986

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

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

The Group 2017	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								
Clients' and brokers' balances	271,738	–	–	–	–	–	–	271,738
Deposits from customers	161,700	373,224	107,741	–	6,202	–	–	648,867
Deposits and placements of banks and other financial institutions	1,390,079	516,633	309,833	22,532	8,656	–	–	2,247,733
Obligations on securities sold under repurchase agreements	–	–	149,111	–	–	–	–	149,111
Derivative financial liabilities	1,489	2,439	3,694	16,545	328	23,464	–	47,959
Subordinated obligations	–	–	–	–	–	50,262	–	50,262
Other liabilities**	14,121	–	–	–	88,686	202	–	103,009
Total liabilities	1,839,127	892,296	570,379	39,077	103,872	73,928	–	3,518,679
Total equity	–	–	–	–	–	–	745,307	745,307
Total liabilities and equity	1,839,127	892,296	570,379	39,077	103,872	73,928	745,307	4,263,986

** Includes current tax liabilities.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

The Group 2016	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	226,771	69,551	–	–	–	–	–	296,322
Clients' and brokers' balances	197,034	–	–	–	–	–	–	197,034
Deposits and placements with banks and other financial institutions	–	–	40,359	–	–	–	–	40,359
Financial assets held-for-trading	50,550	511,833	200,906	–	–	638,840	16,772	1,418,901
Financial investments available-for-sale	–	–	–	30,240	182,432	651,844	167,788	1,032,304
Financial investments held-to-maturity	–	–	–	–	28,636	499,464	–	528,100
Loans and advances	287,755	–	20,000	–	–	64,407	–	372,162
Derivative financial assets	706	5,679	12,277	2,942	569	20,521	–	42,694
Other assets*	–	–	–	–	44,871	–	176,310	221,181
Total assets	762,816	587,063	273,542	33,182	256,508	1,875,076	360,870	4,149,057

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

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

The Group 2016	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								
Clients' and brokers' balances	279,919	–	–	–	–	–	–	279,919
Deposits from customers	122,253	847,587	11,926	49,110	1,053	–	–	1,031,929
Deposits and placements of banks and other financial institutions	965,367	668,883	226,744	41,754	2,022	–	–	1,904,770
Derivative financial liabilities	4,546	9,526	6,147	10,520	2,517	47,429	–	80,685
Subordinated obligations	–	–	–	–	–	50,247	–	50,247
Other liabilities**	13,097	–	–	–	87,852	197	–	101,146
Total liabilities	1,385,182	1,525,996	244,817	101,384	93,444	97,873	–	3,448,696
Total equity	–	–	–	–	–	–	700,361	700,361
Total liabilities and equity	1,385,182	1,525,996	244,817	101,384	93,444	97,873	700,361	4,149,057

** Includes current tax liabilities.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

The Company 2017	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	490	–	–	–	–	–	–	490
Financial investment available-for-sale	–	–	–	–	–	–	140,168	140,168
Other assets	572	–	–	–	43	–	–	615
Tax recoverable	–	–	–	–	–	–	213	213
Investment in subsidiary companies	–	–	–	–	–	–	320,054	320,054
Total assets	**1,062**	**–**	**–**	**–**	**43**	**–**	**460,435**	**461,540**
Liabilities								
Other liabilities	–	–	–	–	613	–	–	613
Total liabilities	**–**	**–**	**–**	**–**	**613**	**–**	**–**	**613**
Total equity	**–**	**–**	**–**	**–**	**–**	**–**	**460,927**	**460,927**
Total liabilities and equity	**–**	**–**	**–**	**–**	**613**	**–**	**460,927**	**461,540**

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 reporting date based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM Guideline: (continued)

The Company 2016	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	1,065	–	–	–	–	–	–	1,065
Financial investment available-for-sale	–	–	–	–	–	–	109,082	109,082
Other assets	445	–	–	–	45	–	–	490
Tax recoverable	–	–	–	–	–	–	186	186
Investment in subsidiary companies	–	–	–	–	–	–	320,054	320,054
Total assets	1,510	–	–	–	45	–	429,322	430,877
Liabilities								
Other liabilities	–	–	–	–	617	–	–	617
Total liabilities	–	–	–	–	617	–	–	617
Total equity	–	–	–	–	–	–	430,260	430,260
Total liabilities and equity	–	–	–	–	617	–	430,260	430,877

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 2017	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							
Clients' and brokers' balances	271,738	–	–	–	–	–	271,738
Deposits from customers	535,347	108,314	6,328	–	–	–	649,989
Deposits and placements of banks and other financial institutions	1,907,952	333,727	8,855	–	–	–	2,250,534
Obligations on securities sold under repurchase agreements	–	149,780	–	–	–	–	149,780
Derivative financial liabilities							
- Gross settled derivatives							
- Inflow	(958,944)	(570,185)	(85,885)	–	–	–	(1,615,014)
- Outflow	959,397	571,687	86,790	–	–	–	1,617,874
- Net settled derivatives	(234)	(1,009)	(549)	(3,379)	(6,035)	169	(11,037)
Other liabilities	14,121	–	88,213	–	–	202	102,536
Subordinated obligations	–	1,336	1,314	5,307	5,300	56,636	69,893
Total financial liabilities	2,729,377	593,650	105,066	1,928	(735)	57,007	3,486,293

Notes to the Financial Statements

for the financial year ended 30 June 2017

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. (continued)

The Group 2016	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							
Clients' and brokers' balances	279,919	–	–	–	–	–	279,919
Deposits from customers	970,871	61,288	1,074	–	–	–	1,033,233
Deposits and placements of banks and other financial institutions	1,635,266	270,215	2,048	–	–	–	1,907,529
Derivative financial liabilities							
- Gross settled derivatives							
- Inflow	(1,522,694)	(764,461)	(80,508)	–	–	–	(2,367,663)
- Outflow	1,530,500	769,155	81,060	–	–	–	2,380,715
- Net settled derivatives	(201)	1,732	899	6,732	3,002	(555)	11,609
Other liabilities	13,096	–	87,647	–	–	197	100,940
Subordinated obligations	–	1,350	1,315	5,300	5,307	59,286	72,558
Total financial liabilities	2,906,757	339,279	93,535	12,032	8,309	58,928	3,418,840

The Company 2017	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							
Other liabilities	**–**	**–**	**613**	**–**	**–**	**–**	**613**
Total financial liabilities	**–**	**–**	**613**	**–**	**–**	**–**	**613**
2016							
Liabilities							
Other liabilities	–	–	617	–	–	–	617
Total financial liabilities	–	–	617	–	–	–	617

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's commitments and contingencies:

The Group 2017	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	**1,000**	**–**	**1,000**
Obligations under underwriting agreement	**130,000**	**–**	**130,000**
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	**10,352**	**–**	**10,352**
Other commitments, such as formal standby facilities and credit lines	**326**	**–**	**326**
Any commitment that are unconditionally cancelled at anytime by the Group without prior notice	**661,322**	**–**	**661,322**
	803,000	**–**	**803,000**
2016			
Direct credit substitutes	1,000	–	1,000
Other commitments, such as formal standby facilities and credit lines	2,165	589	2,754
Any commitment that are unconditionally cancelled at anytime by the Group without prior notice	686,780	–	686,780
	689,945	589	690,534

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position is the amounts on the statement 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:

	The Group		The Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Credit risk exposure relating to on-balance sheet assets:				
Short-term funds (exclude cash in hand)	**267,448**	296,308	**490**	1,065
Clients' and brokers' balances	**270,967**	197,034	**–**	–
Securities purchased under resale agreements	**35,123**	–	**–**	–
Deposits and placements with banks and other financial institutions	**–**	40,359	**–**	–
Financial assets and investments portfolios (exclude shares and unit trust investment)				
– financial assets held-for-trading	**1,061,100**	1,402,129	**–**	–
– financial investments available-for-sale	**972,670**	864,516	**–**	–
– financial investments held-to-maturity	**909,215**	528,100	**–**	–
Loans and advances	**236,592**	372,162	**–**	–
Other assets	**53,354**	48,309	**576**	450
Derivative financial assets	**19,916**	42,694	**–**	–
	3,826,385	3,791,611	**1,066**	1,515
Credit risk exposure relating to off-balance sheet items:				
Commitments and contingencies	**803,000**	690,534	**–**	–
Total maximum credit risk exposure	**4,629,385**	4,482,145	**1,066**	1,515

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(ii) Collaterals

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

(a) Fixed deposits, Mudharabah General Investment Account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Aircrafts, vessels and automobiles
(d) Quoted shares, unit trust, Malaysian Governments Bonds and securities and private debt securities
(e) Other tangible business assets, such as inventory and equipment

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.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for loans and advances as at 30 June 2017 for the Group is 100.0% (30 June 2016: 100.0%). The financial effect of collateral held for the other financial assets is not significant.

(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	2017 RM'000	2016 RM'000
Neither past due nor impaired	**225,466**	372,602
Past due but not impaired	**–**	–
Individually impaired	**11,576**	574
Gross loans and advances	**237,042**	373,176
Less : Allowance for impaired loans, advances and financing:		
– individual assessment allowance	**(110)**	(100)
– collective assessment allowance	**(340)**	(914)
Total net loans and advances	**236,592**	372,162

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(a) Loans and advances (continued)

(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 Group's internal credit grading system is as follows:

The Group	2017 RM'000	2016 RM'000
Grading classification:		
– Good	**14,695**	38,178
– Satisfactory	**–**	46,349
– Un-graded	**210,771**	288,075
	225,466	372,602

The definition of the grading classification of loans and advances can be summarised as follow:

Good:
Refers to internal credit grading from 'Favourable' to 'Prime Quality', indicating strong ability to repay principal and interest.

Satisfactory:
Refers to internal credit grading of 'Satisfactory', indicating adequate ability and no difficulty to repay principal and interest.

Loans and advances classified as un-graded mainly comprise of share margin financing and staff loans.

(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 were no loans and advances past due but not impaired for the Group.

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(a) Loans and advances (continued)

(iii) Loans and advances that are individually determined to be impaired as at reporting date are as follows:

The Group	2017 RM'000	2016 RM'000
Gross amount of individually impaired loans	**11,576**	574
Less: Individual assessment allowance	**(110)**	(100)
Total net amount of individually impaired loans	**11,466**	474

(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 belows:

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

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets.

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

The Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Securities purchased under resale agreements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
2017								
Neither past due nor impaired	**267,448**	**270,148**	**35,123**	**1,061,100**	**972,670**	**909,215**	**53,354**	**19,916**
Individually impaired	**-**	**1,264**	**-**	**-**	**-**	**-**	**1,015**	**-**
Less: Impairment losses	**-**	**(445)**	**-**	**-**	**-**	**-**	**(1,015)**	**-**
	267,448	**270,967**	**35,123**	**1,061,100**	**972,670**	**909,215**	**53,354**	**19,916**
2016								
Neither past due nor impaired	336,667	195,943	-	1,402,129	864,516	528,100	48,309	42,694
Individually impaired	-	1,390	-	-	-	-	28	-
Less: Impairment losses	-	(299)	-	-	-	-	(28)	-
	336,667	197,034	-	1,402,129	864,516	528,100	48,309	42,694

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets. (continued)

Short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets are summarised as follows:- (continued)

The Company	Short-term funds and deposits RM'000	Other assets RM'000
2017		
Neither past due nor impaired	**490**	**576**
Individually impaired	**–**	**–**
Less: Impairment losses	**–**	**–**
	490	**576**
2016		
Neither past due nor impaired	1,065	450
Individually impaired	–	–
Less: Impairment losses	–	–
	1,065	450

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets. (continued)

Analysis of short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale 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 reporting date are as follows:

The Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Securities purchased under resale agreements RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
2017								
AAA to AA3	–	–	–	667,248	551,033	10,094	–	17,567
A1 to A3	–	–	–	240,558	39,234	67,463	–	1,205
Baa1 to Baa3	–	–	–	–	35,598	26,294	–	172
P1 to P3	267,373	–	–	–	–	–	19,785	–
B1	–	–	–	–	–	–	–	–
Non-rated, of which:				–	–	–	–	–
- Bank Negara Malaysia	75	–	–	–	–	–	–	–
- Malaysia Government Investment Issues	–	–	–	30,561	60,896	518,643	–	–
- Malaysian Government Securities	–	–	–	–	30,378	211,031	–	–
- Government guaranteed corporate bond and/or sukuk	–	–	–	122,721	200,769	75,690	–	–
- Others	–	270,967	35,123	12	54,762	–	33,569	972
	75	270,967	35,123	153,294	346,805	805,364	33,569	972
	267,448	270,967	35,123	1,061,100	972,670	909,215	53,354	19,916

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets. (continued)

Analysis of short–term funds and deposits and placements with banks and other financial institutions, securities purchased under resale 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 reporting date are as follows: (continued)

The Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Clients' and brokers' balances RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative financial assets RM'000
2016							
AAA to AA3	–	–	813,817	541,895	10,096	–	40,690
A1 to A3	–	–	180,910	95,891	63,902	–	733
Baa1 to Baa3	–	–	21,058	72,863	61,553	–	–
P1 to P3	336,649	–	–	–	–	22,680	–
B1	–	–	–	–	–	–	–
Non-rated, of which:							
- Bank Negara Malaysia	18	–	–	–	–	–	–
- Malaysia Government Investment Issues	–	–	–	30,889	266,162	–	–
- Malaysian Government Securities	–	–	–	30,606	81,194	–	–
- Government guaranteed corporate bond and/or sukuk	–	–	386,309	33,775	45,193	–	–
- Others	–	197,034	35	58,597	–	25,629	1,271
	18	197,034	386,344	153,867	392,549	25,629	1,271
	336,667	197,034	1,402,129	864,516	528,100	48,309	42,694

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iii) Credit quality (continued)

(b) Short-term funds and deposits and placements with banks and other financial institutions, securities purchased under resale agreements, financial assets and investments portfolios, clients' and brokers' balances, other assets and derivative financial assets. (continued)

Analysis of short–term funds and deposits and placements with banks and other financial institutions, securities purchased under resale 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 reporting date are as follows: (continued)

The Company	Short-term funds and deposits RM'000	Other assets RM'000
2017		
AAA to AA3	–	–
P1 to P3	490	–
Non-rated, of which:		
- Others	–	576
	–	576
	490	576
2016		
AAA to AA3	–	–
P1 to P3	1,065	–
Non-rated, of which:		
- Others	–	450
	–	450
	1,065	450

(iv) Collateral and other credit enhancements obtained

(a) 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 sheet financial instruments are set out below:

The Group	Short-term funds and deposits and placements with banks and other financial institutions	Clients' and brokers' balances	Securities purchased under resale agreements	Financial assets held-for-trading	Financial investments available-for-sale	Financial investments held-to-maturity	Loans and advances	Other assets	Derivative financial assets	On-balance sheet total	Credit related commitments and contingencies
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	–	–	–	–	–	–	–	476	–	476	–
Electricity, gas and water	–	–	–	20,328	118,918	–	–	471	–	139,717	–
Construction	–	–	35,123	–	112,531	–	14,667	13,744	–	176,065	1,326
Transport, storage and communications	–	–	–	50,799	20,268	–	–	–	–	71,067	–
Finance, insurance, real estate and business services	267,373	–	–	944,194	518,587	179,541	–	1,501	19,916	1,931,112	10,352
Government and government agencies	75	–	–	45,779	141,757	729,674	–	–	–	917,285	–
Education, health and others	–	–	–	–	–	–	–	35	–	35	–
Purchase of securities	–	270,967	–	–	–	–	210,622	–	–	481,589	130,000
Others	–	–	–	–	60,609	–	11,303	37,127	–	109,039	661,322
	267,448	270,967	35,123	1,061,100	972,670	909,215	236,592	53,354	19,916	3,826,385	803,000

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 sheet financial instruments are set out below: (continued)

The Group	Short-term funds and deposits and placements with banks and other financial institutions	Clients' and brokers' balances	Financial assets held-for-trading	Financial investments available-for-sale	Financial investments held-to-maturity	Loans and advances	Other assets	Derivative financial assets	On-balance sheet total	Credit related commitments and contingencies
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	–	–	–	–	–	18,068	604	–	18,672	–
Electricity, gas and water	–	–	35,652	72,301	–	–	32	–	107,985	–
Construction	–	–	77,485	142,228	–	–	4,296	–	224,009	1,000
Wholesale and retail	–	–	–	83,758	–	–	555	–	84,313	–
Transport, storage and communications	–	–	206,218	15,109	–	–	–	–	221,327	–
Finance, insurance, real estate and business services	336,649	–	1,082,774	408,186	172,585	52,021	1,751	42,694	2,096,660	2,754
Government and government agencies	18	–	–	61,495	347,356	–	–	–	408,869	–
Education, health and others	–	–	–	–	–	–	35	–	35	–
Purchase of securities	–	197,034	–	–	–	287,888	–	–	484,922	686,780
Others	–	–	–	81,439	8,159	14,185	41,036	–	144,819	–
	336,667	197,034	1,402,129	864,516	528,100	372,162	48,309	42,694	3,791,611	690,534

Notes to the Financial Statements

for the financial year ended 30 June 2017

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 sheet financial instruments are set out below: (continued)

The Company 2017	Short-term funds and deposits RM'000	Other assets RM'000	On-balance sheet total RM'000
Finance, insurance, real estate and business services	490	493	983
Others	–	83	83
	490	576	1,066
2016			
Finance, insurance, real estate and business services	1,065	445	1,510
Others	–	5	5
	1,065	450	1,515

(e) Fair value measurement

The Group and the Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active market where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities, unit trust investments and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2.

In cases where quoted prices are generally not available, the Group then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Group's exposure to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Group's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Group and the Company recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. Transfers between fair value hierarchy primarily due to change in the level of trading activity, change in observable market activity related to an input, reassessment of available pricing information and change in the significance of the unobservable input. There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the financial year (30 June 2016 - Nil).

(i) The table below summarises the fair value hierarchy of the Group's and the Company's financial assets and liabilities measured at fair values.

The Group 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading	41,547	1,061,100	–	1,102,647
- money market instruments	–	862,157	–	862,157
- quoted securities	41,547	–	–	41,547
- unquoted securities	–	198,943	–	198,943
Financial investments available-for-sale	201,063	972,670	245	1,173,978
- money market instruments	–	156,716	–	156,716
- quoted securities	201,063	–	–	201,063
- unquoted securities	–	815,954	245	816,199
Derivative financial assets	–	19,916	–	19,916
	242,610	2,053,686	245	2,296,541
Financial liability				
Derivative financial liabilities	–	47,959	–	47,959

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

(i) The table below summarises the fair value hierarchy of the Group's and the Company's financial assets and liabilities measured at fair values. (continued)

The Group 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading	16,772	1,402,129	–	1,418,901
- money market instruments	–	763,252	–	763,252
- quoted securities	16,772	–	–	16,772
- unquoted securities	–	638,877	–	638,877
Financial investments available-for-sale	167,543	864,516	245	1,032,304
- money market instruments	–	76,589	–	76,589
- quoted securities	167,543	–	–	167,543
- unquoted securities	–	787,927	245	788,172
Derivative financial assets	–	42,694	–	42,694
	184,315	2,309,339	245	2,493,899
Financial liability				
Derivative financial liabilities	–	80,685	–	80,685

The Company 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial asset				
Financial investments available-for-sale				
- quoted securities	**140,168**	**–**	**–**	**140,168**
2016				
Financial asset				
Financial investments available-for-sale				
- quoted securities	109,082	–	–	109,082

There were no transfers between Level 1 and 2 during the year.

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

(i) The table below summarises the fair value hierarchy of the Group's and the Company's financial assets and liabilities measured at fair values. (continued)

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy are as follows:

The Group	Financial investments available-for-sale 2017 RM'000	2016 RM'000
As at 1 July/30 June	**245**	245

(ii) The table below summarises the carrying amount and analyses the fair value within the fair value hierachy of the Group's and the Company's assets and liabilities not measured at fair value at reporting date but for which fair value is disclosed:

The Group 2017	Carrying amount RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets					
Financial investments held-to-maturity					
- money market instruments	**729,674**	**–**	**732,870**	**–**	**732,870**
- unquoted securities	**179,541**	**–**	**179,776**	**–**	**179,776**
	909,215	**–**	**912,646**	**–**	**912,646**

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

(ii) The table below summarises the carrying amount and analyses the fair value within the fair value hierachy of the Group's and the Company's assets and liabilities not measured at fair value at reporting date but for which fair value is disclosed:

The Group 2017	Carrying amount RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liability					
Deposits from customers	**648,867**	**–**	**648,871**	**–**	**648,871**
Deposits and placements of banks					
and other financial institutions	**2,247,733**	**–**	**2,247,750**	**–**	**2,247,750**
Subordinated obligations	**50,262**	**–**	**50,444**	**–**	**50,444**
	2,946,862	**–**	**2,947,065**	**–**	**2,947,065**
2016					
Financial assets					
Financial investments held-to-maturity					
- money market instruments	347,355	–	351,388	–	351,388
- unquoted securities	180,745	–	182,079	–	182,079
	528,100	–	533,467	–	533,467
Financial liability					
Deposits from customers	1,031,929	–	1,031,931	–	1,031,931
Deposits and placements of banks					
and other financial institutions	1,904,770	–	1,904,778	–	1,904,778
Subordinated obligations	50,247	–	50,754	–	50,754
	2,986,946	–	2,987,463	–	2,987,463

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the statements of financial position as at reporting date of the Group and the Company approximates the total carrying amount.

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

Short-term funds and placements with banks and other 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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

42 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (continued)

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

Financial investments 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 flows analysis and other valuation techniques commonly used by market participants.

Loans and advances

The value of fixed rate loans with remaining maturity of less than one year and floating rate loans are estimated to approximate their carrying amounts. For fixed rate loans with remaining maturity of more than one year, 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 short term in nature.

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 and repurchased agreements

The estimated fair values of deposits and placements of other financial institutions and repurchased agreements 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.

Subordinated obligations

The fair value of subordinated obligations are based on quoted market prices where available.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2017

43 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with MFRS 132 "Financial Instrument: Presentation", the Group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangement on:

- All financial assets and liabilities that are reported net on balance sheet; and
- All derivative financial instruments and securities purchased under resale agreements and obligations on securities sold under repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

The "Net amounts" presented below are not intended to represent the Group's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Effects of offsetting on balance sheet			Related amounts not offset		
The Group 2017	**Gross amount RM'000**	**Amounts offset RM'000**	**Net amount reported on the balance sheet RM'000**	**Financial instruments RM'000**	**Financial collateral RM'000**	**Net amount RM'000**
Financial assets						
Clients' and brokers' balances	**504,817**	**(233,850)**	**270,967**	**–**	**–**	**270,967**
Derivative financial assets	**19,916**	**–**	**19,916**	**(10,759)**	**(770)**	**8,387**
Securities purchased under resale agreements	**35,123**	**–**	**35,123**	**(35,441)**	**–**	**(318)**
Total assets	**559,856**	**(233,850)**	**326,006**	**(46,200)**	**(770)**	**279,036**
Financial liabilities						
Clients' and brokers' balances	**505,588**	**(233,850)**	**271,738**	**–**	**–**	**271,738**
Derivative financial liabilities	**47,959**	**–**	**47,959**	**(10,759)**	**(19,785)**	**17,415**
Obligations on securities agreement	**149,111**	**–**	**149,111**	**(149,421)**	**–**	**(310)**
Total liabilities	**702,658**	**(233,850)**	**468,808**	**(160,180)**	**(19,785)**	**288,843**
2016						
Financial assets						
Clients' and brokers' balances	440,207	(243,173)	197,034	–	–	197,034
Derivative financial assets	42,694	–	42,694	(18,942)	(640)	23,112
Total assets	482,901	(243,173)	239,728	(18,942)	(640)	220,146
Financial liabilities						
Clients' and brokers' balances	523,092	(243,173)	279,919	–	–	279,919
Derivative financial liabilities	80,685	–	80,685	(18,942)	(22,680)	39,063
Total liabilities	603,777	(243,173)	360,604	(18,942)	(22,680)	318,982

Notes to the Financial Statements

for the financial year ended 30 June 2017

43 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Related amounts not offset

Derivative financial assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

Repurchased and reverse repurchase agreements

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchased agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral typically comprises cash, highly liquid securities or other financial instruments which are legally transferred and can be liquidated in the event of counterparty default.

44 EQUITY COMPENSATION BENEFITS

Executive Share Option 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 had been in force for a period of ten (10) years. The ESOS had expired on 23 January 2016.

There were no options outstanding as at reporting date.

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

	2017		2016	
	Number of trust shares held	Market value	Number of trust shares held	Market value
	'000	RM'000	'000	RM'000
The Group	**5,613**	**7,465**	5,613	7,465
The Company	**5,508**	**7,325**	5,508	7,325

Notes to the Financial Statements

for the financial year ended 30 June 2017

45 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Public Shareholdings Spread

The Company currently does not meet the requirement as set out in paragraph 8.02(1) of the Listing Requirements which states that a listed issuer must ensure that at least 25% of its total listed shares (excluding treasury shares) are in the hands of public shareholders.

The public shareholding spread of the Company as at 30 June 2017 was 18.67%.

As announced by the Company on 18 March 2015, Bursa Malaysia Securities Berhad had imposed a suspension on the trading of HLCB's shares with effect from 26 March 2015. The suspension will only be uplifted upon full compliance of the public shareholding spread in accordance with paragraph 8.02(1) of the Listing Requirements.

The Company has not identified a satisfactory plan to address the non-compliance with the 25% public shareholding spread requirement.

The Company had previously announced that its majority shareholder, Hong Leong Financial Group Berhad ("HLFG"), had informed the Company that it was considering various options to address the non-compliance with the 25% public spread requirement and would inform the Company accordingly as needed. The Company will continue to discuss with HLFG, options to comply with the shareholding spread requirement.

46 SUBSEQUENT EVENT AFTER THE FINANCIAL YEAR

There were no material events subsequent to the end of the financial year that require disclosure or adjustments to the financial statements.

Notes to the Financial Statements

for the financial year ended 30 June 2017

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.

	2017 RM'000	2016 RM'000
The Group		
Total retained profits of Hong Leong Capital Berhad and its subsidiaries		
- Realised	**604,643**	411,821
- Unrealised - in respect of deferred tax recognised in the profit or loss	**90,948**	92,378
- in respect of other items of income and expenses	**21,310**	47,969
	716,901	552,168
Less: Consolidation adjustments	**(216,928)**	(216,867)
Total Group's retained profits	**499,973**	335,301
The Company		
Total retained profits of Hong Leong Capital Berhad		
- Realised	**219,963**	189,315
- Unrealised - in respect of deferred tax recognised in the profit or loss	**–**	–
	219,963	189,315

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 251(2) of the Companies Act 2016

We, Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Tan Kong Khoon, being two of the Directors of Hong Leong Capital Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 71 to 174 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017 and financial performance of the Group and the Company for the financial year ended 30 June 2017, in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 18 September 2017.

Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
Director

Tan Kong Khoon
Director

Kuala Lumpur
18 September 2017

Statutory Declaration

pursuant to Section 251(1) of the Companies Act 2016

I, Lau Yew Sun, the officer primarily responsible for the financial management of Hong Leong Capital Berhad, do solemnly and sincerely declare that the financial statements set out on pages 71 to 174 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 above named Lau Yew Sun
Petaling Jaya in Selangor Darul Ehsan on
18 September 2017

Before me,

Lawrence Low
Commissioner for Oaths

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the financial statements of Hong Leong Capital Berhad ("the Company") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

WHAT WE HAVE AUDITED

We have audited the financial statements of the Group and of the Company, which comprise the statements of financial position as at 30 June 2017 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 71 to 173.

BASIS FOR OPINION

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

OUR AUDIT APPROACH

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Group and the Company. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Company, the accounting processes and controls, and the industry in which the Group and the Company operate.

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

KEY AUDIT MATTER

Key audit matter is matter that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. This matter was addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred tax assets arising from unutilised tax credit Refer to Summary of Significant Group Accounting Policy Notes A and Q and Note 11 and Note 31 to the financial statement. The Group recognised deferred tax assets of on unutilised tax credit to the extent that it is probable that future taxable profit will be available against which the tax credits can be utilised. Deferred tax assets of RM90.9 million as at 30 June 2017 arose mainly from unutilised tax credit of a banking subsidiary. Significant judgement is required to estimate the amount of deferred tax assets that could be recognised were dependant on the availability future taxable profits. Future taxable profits which are subject to future events and economic conditions which are inherently uncertain Therefore, the extent of judgement and the amount of the deferred tax assets recognised resulted in this matter being identified as an area of audit focus.	We performed the following audit procedures: • Obtained an understanding about the local tax developments, in particular those related to changes in the statutory income tax rate and of the statutes of limitation since these were key assumptions used in determining the amount of deferred tax assets recognised. • Checked the available tax credit to correspondence between the banking subsidiary and the Inland Revenue Board. • Checked that the profit projection to the budgets approved by the Board of Directors. • Compared historical profits with the budget to assess the accuracy of forecasting. • Assessed the reasonableness of assumption used by management in determining the amount of of taxable profit.

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the following:

- 5 Year Group Financial Highlights
- Chairman's Statement
- Board Audit and Risk Management Committee Report
- Corporate Governance, Risk Management & Internal Control
- Management Discussion and Analysis
- Sustainability Statement
- Directors' Report
- Basel II Pillar 3

but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 47 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 Requirements, 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 266 of the Companies Act 2016 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

NG YEE LING
(No. 3032/01/19 (J))
Chartered Accountant

Kuala Lumpur
18 September 2017

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-sixth Annual General Meeting of Hong Leong Capital Berhad ("Company") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 26 October 2017 at 2.30 p.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2017.

2. To declare a final single-tier dividend of 19 sen per share for the financial year ended 30 June 2017 to be paid on 17 November 2017 to members registered in the Record of Depositors on 2 November 2017. **(Resolution 1)**

3. To approve the payment of Director Fees of RM360,000 for the financial year ended 30 June 2017 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM64,000 for the period of 31 January 2017 until the next Annual General Meeting. **(Resolution 2)**

4. To pass the following motions as ordinary resolutions:

(a) "**THAT** Ms Tai Siew Moi who retires by rotation pursuant to Article 95 of the Company's Constitution, be and is hereby re-elected a Director of the Company." **(Resolution 3)**

(b) "**THAT** YBhg Tan Sri Quek Leng Chan be and is hereby re-appointed a Director of the Company." **(Resolution 4)**

(c) "**THAT** YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman be and is hereby re-appointed a Director of the Company and having served as an Independent Non-Executive Director for more than nine (9) years, to continue in office as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting." **(Resolution 5)**

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. **(Resolution 6)**

SPECIAL BUSINESS

As special business, to pass the following motions as ordinary resolutions:-

6. Ordinary Resolution
Approval to Continue in Office as Independent Non-Executive Director

"**THAT** approval be and is hereby given for YBhg Dato' Ahmad Fuaad bin Mohd Dahalan who has served as an Independent Non-Executive Director of the Company for more than nine (9) years, to continue in office as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting." **(Resolution 7)**

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

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3 (A) and (C) of the Company's Circular to Shareholders dated 4 October 2017 ("the Circular") with HLCM and persons connected with HLCM ("Hong Leong Group"), 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 Hong Leong Group than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders;

Notice of Annual General Meeting

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 340(2) of the Companies Act 2016 (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

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." **(Resolution 8)**

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

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3 (B) of the Company's Circular to Shareholders dated 4 October 2017 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 Tower REIT 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 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 340(2) of the Companies Act 2016 (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

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." **(Resolution 9)**

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

Notice of Annual General Meeting

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

(a) shares transferred into the depositor's securities account before 4:00 p.m. on 2 November 2017 in respect of ordinary transfers; and

(b) shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of the Bursa Securities.

By Order of the Board

CHRISTINE MOH SUAT MOI
(MAICSA 7005095)
Group Company Secretary

Kuala Lumpur
4 October 2017

NOTES:

1. For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 20 October 2017 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.

2. Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend, participate, speak and vote in his stead. A proxy may but need not be a member of the Company. A member who is an authorised nominee may appoint not more than two (2) proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.

3. Where two (2) or more proxies are appointed, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid.

4. 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 24 hours before the time and date of the meeting or adjourned meeting.

5. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Securities ("MMLR"), all the resolutions set out in this Notice will be put to a vote by way of a poll.

6. YBhg Dato' Mohamed Nazim bin Abdul Razak who is due for retirement by rotation has informed the Board that he will not seek re-election and will retire at the conclusion of the Twenty-sixth Annual General Meeting.

EXPLANATORY NOTES

1. Resolution 2 on Director Fees and Other Benefits

- Director Fees of RM360,000 are inclusive of Board Committee fees of RM150,000.
- Directors' Other Benefits of up to an amount of RM64,000 refer to Directors' & Officers' Liability Insurance coverage based on premium paid/payable and Directors' Training Benefits.

2. Resolutions 4 and 5 on Re-appointment of Directors

Under the new Companies Act 2016, the requirement to put forth the re-appointment of Directors of or over the age of 70 years had been repealed. At the Twenty-fifth Annual General Meeting ("AGM") held on 27 October 2016, the Company had obtained shareholders' approval for the re-appointment of YBhg Tan Sri Quek Leng Chan and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as Directors of the Company and for them to continue in office as Directors until the conclusion of the next AGM of the Company. In this regard, the Company is seeking shareholders' approval for the re-appointment of YBhg Tan Sri Quek Leng Chan and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as Directors of the Company.

YBhg Tan Sri Quek Leng Chan's and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman's retirement by rotation at subsequent AGMs will be in accordance with the Company's Constitution.

Notice of Annual General Meeting

EXPLANATORY NOTES (CONTINUED)

3. Resolutions 5 and 7 on Approval to Continue in Office as Independent Non-Executive Directors

The proposed Ordinary Resolutions, if passed, will enable YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and YBhg Dato' Ahmad Fuaad bin Mohd Dahalan to continue in office as Independent Non-Executive Directors of the Company.

The Malaysian Code on Corporate Governance ("MCCG") provides that approval of shareholders be sought in the event that the Company would like an Independent Director who has served in that capacity for more than 9 years to continue in office as an Independent Director.

The Company has in place a Tenure Policy for Independent Directors as set out in the Corporate Governance Statement and an annual assessment is conducted on the independence of independent directors by the Nomination Committee ("NC") and Board of Directors ("Board") in accordance with the criteria set out in the MMLR.

Pursuant to the MCCG, the NC and Board have assessed the performance and independence of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and YBhg Dato' Ahmad Fuaad bin Mohd Dahalan who have served on the Board for more than 9 years and determined that they remain objective and continue to bring independent and objective judgment, based on the following justifications:-

- They meet the criteria of "independent director" in accordance with the MMLR and continue to exercise independent judgment in expressing their views and deliberating issues objectively on the conduct of the Company's business and other issues raised at the Board and Board Committee meetings;
- They are free from any conflict of interest with the Company;
- The Company benefits from the experience of these Independent Non-Executive Directors who have over time, gained valuable insights into the Group, its market and the industry;
- Their knowledge of the Group's various core business operations during their tenure of office will enable them to discharge their duties effectively; and
- They exercise due care and diligence as Independent Non-Executive Directors of the Company and carry out their professional duties in the best interest of the Company and its shareholders.

The Board recognises that independence should not be determined solely based on tenure of service and that the continued tenure of service brings considerable stability to the Board. The Company benefits from their mix of skills, experience and competencies for informed and balanced decision-making by the Board.

As such, the NC and Board would like to recommend YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and YBhg Dato' Ahmad Fuaad bin Mohd Dahalan to continue in office as Independent Non-Executive Directors.

4. Ordinary Resolutions 8 and 9 on Recurrent Related Party Transactions of a Revenue or Trading Nature

The proposed Ordinary Resolutions, if passed, will empower the Company and 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 ("Proposed Renewal of and New Shareholders' Mandate").

Detailed information on the Proposed Renewal of and New Shareholders' Mandate is set out in the Circular to Shareholders dated 4 October 2017 which is dispatched together with the Company's 2017 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Securities)

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

  No individual is seeking election as a Director at the forthcoming Twenty-sixth Annual General Meeting of the Company.

Other Information

1. MATERIAL CONTRACTS

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

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017

Issued share capital : RM246,896,668
Class of shares : Ordinary shares
Voting rights : 1 vote for each share held

Distribution Schedule of Shareholders as at 30 August 2017

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	56	8.15	2,028	0.00
100 – 1,000	228	33.19	163,661	0.07
1,001 – 10,000	245	35.66	929,721	0.38
10,001 – 100,000	103	14.99	4,477,300	1.81
100,001 – less than 5% of issued shares	54	7.86	40,518,900	16.41
5% and above of issued shares	1	0.15	200,805,058	81.33
	687	**100.00**	**246,896,668**	**100.00**

List Of Thirty Largest Shareholders as at 30 August 2017

Name of Shareholders		No. of Shares	%
1.	Assets Nominees (Tempatan) Sdn Bhd *- Hong Leong Financial Group Berhad*	200,805,058	81.33
2.	UOB Kay Hian Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Yu Kuan Chon*	6,005,100	2.43
3.	MTrustee Berhad *- Exempt AN for Hong Leong Capital Berhad (ESOS)*	5,507,700	2.23
4.	Tong Chin Hen	2,863,500	1.16
5.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Ho Swee Ming (8080176)*	2,338,300	0.95
6.	Rapid Synergy Berhad	2,191,400	0.89
7.	Kenanga Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Lim Fung Neng*	1,968,500	0.80
8.	RHB Capital Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Yu Kuan Chon (CEB)*	1,019,600	0.41
9.	RHB Capital Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chan Weng Fui (CEB)*	1,018,900	0.41
10.	Kenanga Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Ho Swee Ming*	941,000	0.38

Other Information

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017 (CONTINUED)

List Of Thirty Largest Shareholders as at 30 August 2017 (continued)

Name of Shareholders		No. of Shares	%
11.	Koh Liong Boon	931,500	0.38
12.	RHB Capital Nominees (Tempatan) Sdn Bhd *- Yu Kuan Chon*	870,000	0.35
13.	MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Yu Kuan Chon (MGN-YKC0008M)*	863,400	0.35
14.	RHB Capital Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Ho Swee Ming (CEB)*	857,500	0.35
15.	Kenanga Nominees (Tempatan) Sdn Bhd *- Ding Ming Hea*	833,100	0.34
16.	RHB Capital Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Liew Kok Tze*	776,000	0.31
17.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Ho Swee Ming*	558,000	0.23
18.	RHB Capital Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Tan Kooi Ming @ Tam Kooi Ming*	549,000	0.22
19.	Ng Bing Tiam @ Goh Kee Sang	513,000	0.21
20.	Kenanga Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Lee Chun Weng*	500,000	0.20
21.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chan Yan Meng (8079675)*	483,500	0.20
22.	Yu Kuan Chon	476,000	0.19
23.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chan Weng Fui (8082361)*	475,600	0.19
24.	Chan Sow Keng	450,000	0.18
25.	JF Apex Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chan Yan Meng (Margin)*	436,000	0.18
26.	Kenanga Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chan Yan Meng*	416,500	0.17
27.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Lim Fung Neng (8080723)*	410,300	0.17
28.	PM Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Chan Weng Fui (A)*	381,400	0.15
29.	Kenanga Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Ng Bing Tiam @ Goh Kee Sang*	370,000	0.15
30.	AllianceGroup Nominees (Tempatan) Sdn Bhd *- Pledged Securities Account for Lim Leong Wouh (6000718)*	364,200	0.15
		236,174,058	95.66

Other Information

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2017 (CONTINUED)

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2017 are as follows:

	Direct		Indirect	
Names of Shareholders	No. of Shares	%	No. of Shares	%
Hong Leong Financial Group Berhad	200,805,058	81.33	–	–
Tan Sri Quek Leng Chan	–	–	200,805,058[B]	81.33
Hong Leong Company (Malaysia) Berhad	–	–	200,805,058[A]	81.33
HL Holdings Sdn Bhd	–	–	200,805,058[B]	81.33
Kwek Holdings Pte Ltd	–	–	200,805,058[B]	81.33
Kwek Leng Beng	–	–	200,805,058[B]	81.33
Hong Realty (Private) Limited	–	–	200,805,058[B]	81.33
Hong Leong Investment Holdings Pte Ltd	–	–	200,805,058[B]	81.33
Davos Investment Holdings Private Limited	–	–	200,805,058[B]	81.33
Kwek Leng Kee	–	–	200,805,058[B]	81.33
Guoco Assets Sdn Bhd	–	–	200,805,058[A]	81.33
Guoco Group Limited	–	–	200,805,058[A]	81.33
GuoLine Overseas Limited	–	–	200,805,058[A]	81.33
GuoLine Capital Assets Limited	–	–	200,805,058[A]	81.33

Notes:

A Held through Hong Leong Financial Group Berhad
B Held through Hong Leong Company (Malaysia) Berhad

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2017

Subsequent to the financial year end, there is no change, as at 30 August 2017, to the Directors' interests in the ordinary shares, preference shares 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 64 to 67 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 except for the changes set out below:

Direct Interest of	No. of Ordinary Shares	%
Ms Tai Siew Moi in:		
Hong Leong Bank Berhad	14,500	-negligible-

Indirect Interest of	No. of Ordinary Shares	%
YBhg Tan Sri Quek Leng Chan in:		
Southern Pipe Industry (Malaysia) Sdn Bhd	124,964,153	96.13

Other Information

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
51-53, Persiaran Greenhill 30450, Ipoh, Perak	Freehold & leasehold - 999 years	Branch premises	4,793	23	1,819	31/12/1993

This page intentionally left blank

Form of Proxy

HongLeong Capital Berhad (213006-U)

I/We ____

NRIC/Passport/Company No. ____

of ____

being a member of HONG LEONG CAPITAL BERHAD (the "Company"), hereby appoint ____

____

____

NRIC/Passport No. ____

of ____

____

or failing him/her ____

____

____

NRIC/Passport No. ____

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 Twenty-sixth 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, 26 October 2017 at 2.30 p.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote as indicated below with an "X":

RESOLUTIONS		FOR	AGAINST
1.	To declare a final single-tier dividend of 19 sen per share		
2.	To approve the payment of Director Fees and Directors' Other Benefits		
3.	To re-elect Ms Tai Siew Moi as a Director		
4.	To re-appoint YBhg Tan Sri Quek Leng Chan as a Director		
5.	To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director and approve YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman to continue in office as an Independent Non-Executive Director		
6.	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration		
Special Business			
7.	To approve YBhg Dato' Ahmad Fuaad bin Mohd Dahalan to continue in office as an Independent Non-Executive Director		
8.	To approve the ordinary resolution on the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
9.	To approve the ordinary resolution on the Proposed Renewal of and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Tower Real Estate Investment Trust		

Dated this .... day of 2017

______________________________ ______________________________

Number of shares held Signature(s) of Member

Notes:-

1. For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 20 October 2017 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.
2. 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.
3. 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.
4. A proxy may but need not be a member of the Company.
5. Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend, participate, speak and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may not appoint more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.
6. Where two (2) or more proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).
7. 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.
8. 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 24 hours before the time and date of the meeting or adjourned meeting.
9. In the event two (2) or more proxies are appointed, please fill in the ensuing section.

Name of Proxies	% of shareholdings to be represented

10. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the notice will be put to a vote by way of a poll.

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Group Company Secretary

HONG LEONG CAPITAL BERHAD
(Company No. 213006-U)

Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Malaysia

1st fold here

Hong Leong Capital Berhad (213006-U)
Level 8, Wisma Hong Leong
18 Jalan Perak, 50450 Kuala Lumpur
Tel : 03-2164 8228
Fax : 03-2164 2503

www.hlcap.com.my

As part of Hong Leong Capital's support for environmental sustainability, this Annual Report is printed on recycled paper.