

Hong Leong Investment Bank Berhad

Company no: 43526-P

(Incorporated in Malaysia)

**Reports and financial statements
for the financial year ended 30 June 2010**

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
(Incorporated in Malaysia)

Reports and financial statements for the financial year ended 30 June 2010

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HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Directors' report for the financial year ended 30 June 2010

The Directors of Hong Leong Investment Bank Berhad ("the Bank" or "HLIB") have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 30 June 2010.

Principal activities

The Bank is principally engaged in stock and securities broking, and investment banking business.

The principal activities of the subsidiary companies are nominee services as disclosed in Note 11 to the financial statements.

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

Financial results

	The Group RM'000	The Bank RM'000
Net profit for the financial year	<u>13,354</u>	<u>13,363</u>

Dividend

No dividend has been paid, declared or proposed by the Bank since the end of the previous financial year.

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

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

Business strategy for the current financial year

The Bank's strategy is to focus to expand the range of investment banking products and to enable clients access to other foreign capital markets.

Outlook and business plan for the coming financial year

The key focus for the coming financial year is to strengthen and build on the existing stockbroking business and to offer innovative investment banking solutions while leveraging on Hong Leong Group relationship.

Significant events during the financial year

Significant events during the financial year are disclosed in Note 40 to the financial statements.

Subsequent events after the financial year

Significant events subsequent to the balance sheet date are disclosed in Note 41 to the financial statements.

Reserves and provisions

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

Directors

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman
Ms Lee Jim Leng (Appointed on 24 November 2009)
YBhg Tan Sri A. Razak bin Ramli
Mr Choong Yee How
Mr Martin Giles Manen (Appointed on 30 July 2009)

In accordance with Article 121 of the Bank's Articles of Association, Mr Choong Yee How retires by rotation at the forthcoming Annual General Meeting ("AGM") and being eligible, offers himself for re-election.

In accordance with Article 97 of the Bank's Articles of Association, Ms Lee Jim Leng retires at the forthcoming AGM and being eligible, offers herself for re-election.

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

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

Directors' interests

No Director holding office at the end of the financial year had any beneficial interest in the ordinary shares/warrants/options/irredeemable convertible unsecured loan stocks of the Company and/or related corporations during the financial year ended 30 June 2010 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Mr Choong Yee How whose beneficial interests are disclosed in the Directors' Report of the immediate holding company as provided for under Section 134 of the said Act.

Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares, stocks in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or the provision of services including but not limited to project and sales management and any other management and consultancy services; and/or the provision of construction contracts, leases, tenancy, dealership and distributorship agreements; and/or the provision of treasury functions, advances and the conduct of normal trading, insurance, investment, stockbroking and/or other businesses between the Bank or its related corporations and corporations is deemed to have interest.

There were no arrangement during and at the end of the financial year which had the object of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than the share options granted pursuant to the Executive Share Option Scheme of Hong Leong Financial Group Berhad.

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

Corporate Governance

Introduction

The Bank adheres to the principles and minimum standards for sound corporate governance as set out in Bank Negara Malaysia ("BNM")'s Guidelines on Corporate Governance for Licensed Institutions (Revised BNM/GP1).

A Board of Directors

I The Board

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

The role and responsibilities of the Board broadly cover formulation of corporate policies and strategies, overseeing and evaluating the conduct of the Bank's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure.

The Board observes the Bank's Directors' Code of Ethics established by the Companies Commission of Malaysia and BNM/GP7 Code of Ethics: Guidelines on Code of Conduct for Directors, Officers and Employees in the Banking industry.

II Board Balance

The Board comprises four (5) directors of whom three (3) are independent non-executive directors.

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

The Chairman ensures the smooth and effective functioning of the Board.

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

Corporate Governance (continued)

A Board of Directors (continued)

III Board Meetings

The Board met six (6) times during the financial year ended 30 June 2010 with timely notices of issues to be discussed. Details of attendance of each director are as follow:

	<u>Total meetings attended</u>
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	6/6
Ms Lee Jim Leng (Appointed on 24 November 2009)*	4/4
YBhg Tan Sri A. Razak bin Ramli	6/6
Mr Choong Yee How	6/6
Mr Martin Giles Manen (Appointed on 30 July 2009)*	5/5

* Based on the number of meetings attended for the financial year ended 30 June 2010 since appointment.

At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

IV Supply of Information

All Board members are supplied with information on a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Bank and management's proposals which require the approval of the Board.

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

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

Corporate Governance (continued)

A Board of Directors (continued)

V Board Committees

Board Audit and Risk Management Committee ("BARMC")

The financial reporting and internal control system of the Bank is overseen by the BARMC, which was established on 14 December 2009 and the members are as follows:-

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:-

- (a) To nominate and recommend for the approval of the Board, a person or persons as external auditor(s).
- (b) To review the external audit fees.
- (c) To review, with the external auditors, the audit scope and plan.
- (d) To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- (e) To assess objectivity, performance and independence of external auditors.
- (f) To consider the provision of non-audit services by the external auditors.
- (g) To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.
- (h) To ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.
- (i) To review the assistance given by the officers of the Bank and its subsidiaries ("the Group") to the external auditors.
- (j) To engage on a continuous basis with senior management, such as the chairman, the chief executive officer, the finance director, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Bank.

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

Corporate Governance (continued)

A Board of Directors (continued)

V Board Committees (continued)

Board Audit and Risk Management Committee ("BARMC") (continued)

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows (continued):-

- (k) To review the quarterly reports and annual financial statements of the Bank and of the Group prior to the approval by the Board.
- (l) To review the adequacy of the internal audit scope and plan, functions, competency and resources of the Internal Audit Department.
- (m) To review the report and findings of the Internal Audit Department including any findings of internal investigations and the management's response thereto.
- (n) To review any related party transactions that may arise within the Bank or the Group.
- (o) To verify the allocation of options under the Employees' Share Options Scheme at the end of each financial year.
- (p) To review and report to the Board measures taken to:-
 - (i) identify and examine principal risks faced by the Bank;
 - (ii) implement appropriate systems and internal controls to manage these risks.
- (q) To evaluate and recommend to the Board, risk management policies, strategies and risk tolerance proposed by management.
- (r) Review periodic reports on risk exposure, risk portfolio composition and risk management activities.
- (s) To review the adequacy and effectiveness of internal controls and risk management process.
- (t) To obtain independent legal or other professional advice as it considers necessary.
- (u) Other functions as might be agreed to by the BARMC and the Board.

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

Corporate Governance (continued)

A Board of Directors (continued)

V Board Committees (continued)

Board Audit and Risk Management Committee ("BARMC") (continued)

During the financial year ended 30 June 2010, two (2) BARMC meetings were held and the attendance of the members was as follows:-

	<u>Total meetings attended</u>
YBhg Tan Sri A. Razak bin Ramli	2/2
Mr Martin Giles Manen	2/2
Mr Choong Yee How	2/2

The Group Chief Internal Auditor reports directly to the BARMC and provides the BARMC and management with an independent assessment of the adequacy of risk management practice. Significant breaches and deficiencies identified are discussed with the BARMC and remedial actions taken by management are reported to and monitored by the BARMC.

Nominating and Remuneration Committee ("NRC")

The NRC was established on 14 December 2009 and the members are as follows:-

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli	(Independent Non-Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)

The primary functions and responsibilities of the NRC are set out in the terms of reference as follows:

Nominating Functions

- (a) Responsible for the nomination related matters of the Board of the Bank. The NRC assists the Board of the Bank in formulating and developing remuneration packages of Directors, Chief Executive Officers ("CEO") and key senior management staff as well as Board and Committee appointments through the periodical review of the relevant mix of skills and experiences inherent in the respective Boards.
- (b) Establishing the minimum requirements for the Board of the Bank namely required mix of skills, experience, qualification and other core competencies required of a director. The NRC is also responsible for establishing the minimum requirements for the CEO. The requirements and criteria should be approved by the full Board.

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

Corporate Governance (continued)

A Board of Directors (continued)

V Board Committees (continued)

Nominating and Remuneration Committee ("NRC") (continued)

Nominating Functions (continued)

- (c) Recommending and assessing the nominees for directorship, board committee members as well as nominees for the CEO and ensuring compliance with Section 56 of the Banking and Financial Institutions Act 1989. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the full Board.
- (d) Overseeing the overall composition of the Board and Board Committees, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review.
- (e) Recommending to the Board the removal of a Director/CEO/key senior management officer from the Board/management if the Director/CEO/key senior management officer is ineffective, errant and negligent in discharging his responsibilities.
- (f) Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the full Board.
- (g) Ensuring that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry.
- (h) Overseeing the appointment, management succession planning and performance evaluation of key senior management officers.
- (i) Assessing, on an annual basis, to ensure that the Directors and key senior management officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.
- (j) The nomination role of the NRC should not be delegated with decision-making powers but should report to the full Board for decision.

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Corporate Governance (continued)

A Board of Directors (continued)

V Board Committees (continued)

Nominating and Remuneration Committee ("NRC") (continued)

Remuneration Functions

- (a) Recommending a framework of remuneration for Directors, CEO and key senior management officers for the full Board's approval. The remuneration framework should support the Group culture, objectives and strategy and should reflect the responsibility and commitment, which goes with board membership and responsibilities of the CEO and senior management officers. There should be balance in determining the remuneration package, which should be sufficient to attract and retain directors of caliber, and yet not excessive to the extent of licensed institution's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fees, salaries, allowances, bonuses, options and benefits-in-kind.
- (b) Recommending specific remuneration packages for Executive Directors and the CEO. The remuneration package should be structured such that it is competitive and consistent with the Group culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependent on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the board. In addition, the remuneration of each board member may differ based on their level of expertise, knowledge and experience.

There was no NRC meeting held during the financial year ended 30 June 2010.

Procedure In Reviewing Remuneration

The NRC, in assessing and reviewing the remuneration packages of executive directors, shall ensure 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, including Non-Executive directors, shall be recommended and endorsed by the Board for approval by the shareholders of the Bank at its Annual General Meeting.

VI Re-election

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

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

Corporate Governance (continued)

B Accountability and Audit

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

I Financial Reporting

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

II Internal Control

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

III Relationship with Auditors

The appointment of external auditors is recommended to the Board, which determines the remuneration of the external auditors. The external auditors meet with the Board 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.

C Risk Management

I Overview

The risk management functions of the Bank are undertaken by its immediate holding company, HLG Capital Berhad under its established risk management framework. Operationally, the Heads of divisions in the Bank assess and analyse the key areas of risks i.e. credit, market, liquidity and operational risks.

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

Corporate Governance (continued)

C Risk Management (continued)

II Overall Risk Management Framework

The Board oversees the implementation of the risk management framework of the Bank. In discharging this responsibility, the Board ensures that the Bank has in place their respective risk management framework for management of significant risks within broadly similar parameters. The Board provides oversight on the proper functioning of risk management framework of the Bank by undertaking periodic review of their risk management processes to the extent permissible under the regulatory framework of the Bank and is also given assurance at these reviews on the adequacy and integrity of the system of internal controls. In discharging this oversight role, the Board is assisted by the Group Internal Audit Department, the Bank's Compliance Officer and the Head of Finance.

The controls built into the risk management framework are not expected to eliminate all risks of failure to achieve business objectives but to provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud. Refer to Note 38 for further details.

Share capital

On 22 March 2010, approval was granted by BNM on the issuance of 142,035,171 new ordinary shares of RM1.00 each ("Shares") by capitalising the Bank's share premium reserve.

On 30 March 2010, the Bank issued 142,035,171 Shares to HLG Capital Berhad by capitalising a sum of RM142,035,171 being the entire amount standing in the Bank's share premium reserve.

The Shares issued during the year ranked pari passu in all respects with the existing shares of the Bank.

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

Statutory information regarding the Group and the Bank

(a) As at the end of the financial year

- (i) Before the income statements and balance sheets of the Group and the Bank were made out, the Directors took reasonable steps:
- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - to ensure that any current assets, other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

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

- (i) The Directors are not aware of any circumstances:
- which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;
 - which would render the values attributed to current assets in the financial statements misleading; and
 - which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Bank misleading or inappropriate.
- (ii) In the opinion of the Directors:
- the results of the operations of the Group and the Bank for the financial year ended 30 June 2010 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
 - no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Bank to meet their obligations as and when they fall due.

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

Statutory information regarding the Group and the Bank (continued)

(c) As at the date of this report

- (i) There are no charges on the assets of the Group and the Bank which had arisen since the end of the financial year to secure the liabilities of any other person.
- (ii) There are no contingent liabilities which had arisen since the end of the financial year.
- (iii) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

Holding and ultimate holding companies

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

Auditors

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

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



Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman



Lee Jim Leng

Kuala Lumpur
8 September 2010

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Balance sheets as at 30 June 2010

	Note	The Group		The Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Assets					
Cash and short-term funds	2	660,553	239,023	658,043	238,151
Deposits and placements with banks	3	45,000	24	45,000	24
Securities held at fair value					
through profit or loss	4	431,411	6,101	431,411	6,101
Available-for-sale securities	5	245	245	245	245
Held-to-maturity securities	6	10,000	-	10,000	-
Loans and advances	7	117,926	82,339	117,926	82,339
Clients' and brokers' balances	8	80,590	140,808	80,590	140,808
Other receivables	9	13,300	11,093	15,332	11,219
Statutory deposits with Bank Negara Malaysia	10	4,000	-	4,000	-
Tax recoverable		131	68	131	131
Investment in subsidiary companies	11	-	-	588	588
Deferred tax assets	12	52,597	58,192	52,597	58,192
Prepaid lease payments	13	1,131	1,132	1,131	1,132
Property and equipment	14	5,296	4,210	5,296	4,210
Goodwill	15	28,986	28,750	30,236	30,000
Intangible assets	16	1,229	937	1,229	937
Total assets		1,452,395	572,922	1,453,755	574,077
Liabilities					
Deposits from customers	17	31,218	-	31,218	-
Deposits and placements of banks					
and other financial institutions	18	600,990	9,820	600,990	9,820
Clients' and brokers' balances	20	223,440	252,568	222,317	252,434
Payables and other liabilities	21	309,122	36,263	310,376	36,332
Total liabilities		1,164,770	298,651	1,164,901	298,586
Equity					
Share capital	22	265,535	123,500	265,535	123,500
Redeemable preference shares	23	1,631	1,631	1,631	1,631
Reserves	24	20,459	149,140	21,688	150,360
Total equity		287,625	274,271	288,854	275,491
Total equity and liabilities		1,452,395	572,922	1,453,755	574,077
Commitments and contingencies	33	3,492,940	327,475	3,492,940	327,475

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Income statements

for the financial year ended 30 June 2010

		The Group		The Bank	
	Note	2010	2009	2010	2009
		RM'000	RM'000	RM'000	RM'000
Interest income	25	14,645	3,416	14,645	2,705
Interest expense	26	(3,947)	(194)	(3,947)	(194)
Net interest income		10,698	3,222	10,698	2,511
Non-interest income	27	55,310	23,303	55,096	21,836
		66,008	26,525	65,794	24,347
Overhead expenses	28	(46,018)	(19,908)	(45,795)	(16,558)
Operating profit before allowances		19,990	6,617	19,999	7,789
Allowance for/(Writeback of) losses on loans and advances and other losses	29	(1,041)	1,002	(1,041)	946
Impairment of goodwill	15	-	(57,236)	-	(57,236)
Profit/(Loss) before taxation		18,949	(49,617)	18,958	(48,501)
Taxation	31	(5,595)	57,121	(5,595)	57,225
Profit after taxation for the financial year		13,354	7,504	13,363	8,724
Earnings per share (sen)					
- Basic / Fully diluted	32	8.4	23.8	8.4	27.7

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Statement of changes in equity for the financial year ended 30 June 2010

Attributable to equity holder of the Company							
The Group	Note	Share capital RM'000	Redeemable preference shares RM'000	Share premium RM'000	Statutory reserve RM'000	Retained profits RM'000	Total Equity RM'000
At 1 July 2009		123,500	1,631	142,035	4,362	2,743	274,271
Profit after taxation		-	-	-	-	13,354	13,354
Total recognised income and expense for the financial year		-	-	-	-	13,354	13,354
Transfer to statutory reserve		-	-	-	6,682	(6,682)	-
Issue of ordinary shares	22	142,035	-	(142,035)	-	-	-
At 30 June 2010		265,535	1,631	-	11,044	9,415	287,625

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Statement of changes in equity for the financial year ended 30 June 2010 (continued)

The Group	Note	Attributable to equity holder of the Company						Total Equity RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Retained profits RM'000	Redeemable preference shares RM'000	Share premium RM'000	
At 1 July 2008		500	-	-	(399)	-	101	
Profit after taxation		-	-	-	7,504	-	7,504	
Total recognised income and expense for the financial year		-	-	-	7,504	-	7,504	
Transfer to statutory reserve		-	-	4,362	(4,362)	-	-	
Transfer of retained profits from HLGs		-	-	-	17,530	-	17,530	
Merger debit arising from acquisition of HLGs is adjusted against retained profits		-	-	-	(17,530)	-	(17,530)	
Issue of ordinary shares	22	123,000	-	-	-	-	123,000	
Issue of redeemable preference shares	23,24	-	1,631	-	-	142,035	143,666	
At 30 June 2009		123,500	1,631	4,362	2,743	142,035	274,271	

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Statement of changes in equity for the financial year ended 30 June 2010 (continued)

The Bank	Note	Non-distributable			Distributable		Total Equity RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Retained profits RM'000		
At 1 July 2009		123,500	142,035	4,362	3,963	275,491	
Profit after taxation		-	-	-	13,363	13,363	
Total recognised income and expense for the financial year		-	-	-	13,363	13,363	
Transfer to statutory reserve		-	-	6,682	(6,682)	-	
Issue of ordinary shares	22	142,035	(142,035)	-	-	-	
At 30 June 2010		265,535	1,631	11,044	10,644	288,854	

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

Statement of changes in equity for the financial year ended 30 June 2010 (continued)

	Note	Non-distributable					Distributable		Total Equity RM'000
		Share capital RM'000	Redeemable preference shares RM'000	Share premium RM'000	Statutory reserve RM'000	Retained profits RM'000			
The Bank									
At 1 July 2008		500	-	-	-	(399)	101		
Profit after taxation		-	-	-	-	8,724	8,724		
Total recognised income and expense for the financial year		-	-	-	4,362	(4,362)	-		
Transfer to statutory reserve		-	-	-	-	17,530	17,530		
Transfer of retained profits from HLGs		-	-	-	-	-	-		
Merger debit arising from acquisition of HLGs is adjusted against retained profits		-	-	-	-	(17,530)	(17,530)		
Issue of ordinary shares	22	123,000	-	-	-	-	123,000		
Issue of redeemable preference shares	23,24	-	1,631	142,035	-	-	143,666		
At 30 June 2009		123,500	1,631	142,035	4,362	3,963	275,491		

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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Consolidated cash flow statements for the financial year ended 30 June 2010

Note	2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit/(Loss) before taxation	18,949	(49,617)
Adjustments for :		
Impairment of goodwill	-	57,236
Depreciation of property and equipment	1,666	691
Amortisation of prepaid lease payments	1	1
Amortisation of intangible assets	632	186
Gain on sale of property and equipment	(248)	(72)
Allowance for/(writeback of) losses on clients' and brokers' balances	373	(1,179)
Allowance for losses on loans and advances	709	177
Unrealised gain on securities held at fair value through profit or loss	(1,448)	(718)
Interest income from securities held at fair value through profit or loss	(2,603)	-
Interest income from available-for-sale securities	(2,328)	-
Interest income from held-to-maturity securities	(292)	-
Dividend income	(635)	(445)
	(4,173)	55,877
Operating profit before working capital changes	14,776	6,260
(Increase)/decrease in operating assets		
Deposits and placements with banks	(44,976)	(24)
Securities held at fair value through profit or loss	(423,862)	19,996
Held-to-maturity securities	(10,000)	-
Loan and advances	(36,296)	(8,081)
Clients' and brokers' balances	63,597	(49,403)
Other receivables	1,358	(8,685)
Statutory deposits with Bank Negara Malaysia	(4,000)	-
Increase/(decrease) in operating liabilities		
Deposits from customers	31,218	(603)
Deposits and placements of other financial institutions	591,170	(37,976)
Clients' and brokers' balances	(29,128)	(99,927)
Payables and other liabilities	272,859	7,014
Cash generated from/(used in) operating activities	426,716	(171,429)
Income tax paid	(63)	(161)
Net cash generated from/(used in) operating activities	426,653	(171,590)

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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Consolidated cash flow statements for the financial year ended 30 June 2010 (continued)

	Note	2010 RM'000	2009 RM'000
Cash flows from investing activities			
Acquisition of SBBS, net of cash acquired		-	(27,817)
Acquisition of SIBB, net of cash acquired		-	(48,152)
Goodwill acquisition arising from capitalisation of merger costs		(236)	-
Proceeds from disposal of property and equipment		260	115
Interest received from securities held at fair value through profit or loss, available-for-sale securities and held-to-maturity securities		1,658	-
Dividends from securities portfolio		635	434
Net purchase of intangible assets		(924)	(528)
Purchase of property and equipment		(2,764)	(1,037)
Net cash used in investing activities		(1,371)	(76,985)
Cash flows from financing activities			
Issuance of ordinary shares		-	123,000
Net cash generated from financing activities		-	123,000
Net increase/(decrease) in cash and cash equivalents		425,282	(125,575)
Cash and cash equivalents transferred from HLGS		-	181,121
Cash and cash equivalents at beginning of year		55,546	-
Cash and cash equivalents at end of financial year		480,828	55,546
Cash and cash equivalents comprise:			
Cash and short term funds	2	660,553	239,023
Less: Remisiers' and clients' trust monies		(179,725)	(183,477)
		480,828	55,546

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

Bank cash flow statements for the financial year ended 30 June 2010

Note	2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit/(Loss) before taxation	18,958	(48,501)
Adjustments for :		
Impairment of goodwill	-	57,236
Depreciation of property and equipment	1,666	601
Amortisation of prepaid lease payments	1	1
Amortisation of intangible assets	632	186
Gain on sale of property and equipment	(248)	(72)
Allowance for/(writeback of) losses on clients' and brokers' balances	373	(1,179)
Allowance for losses on loans and advances	709	233
Unrealised gain on securities held at fair value through profit or loss	(1,448)	(718)
Interest income from securities held at fair value through profit or loss	(2,603)	-
Interest income from available-for-sale securities	(2,328)	-
Interest income from held-to-maturity securities	(292)	-
Dividend income	(635)	(445)
	(4,173)	55,843
Operating profit before working capital changes	14,785	7,342
(Increase)/decrease in operating assets		
Deposits and placements with banks	(44,976)	(24)
Securities held at fair value through profit or loss	(423,862)	19,996
Held-to-maturity securities	(10,000)	-
Loan and advances	(36,296)	(8,137)
Clients' and brokers' balances	63,597	(32,438)
Other receivables	(548)	(8,724)
Statutory deposits with Bank Negara Malaysia	(4,000)	-
Increase/(decrease) in operating liabilities		
Deposit from customers	31,218	(603)
Deposits and placements of other financial institutions	591,170	(37,976)
Clients' and brokers' balances	(30,117)	(108,988)
Payables and other liabilities	274,044	12,779
Cash generated from/(used in) operating activities	425,015	(156,773)
Income tax paid	-	(120)
Net cash generated from/(used in) operating activities	425,015	(156,893)

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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Bank cash flow statements

for the financial year ended 30 June 2010 (continued)

	Note	2010 RM'000	2009 RM'000
Cash flows from investing activities			
Acquisition of SBBS, net of cash acquired		-	(44,076)
Acquisition of SIBB, net of cash acquired		-	(48,152)
Goodwill arising from capitalisation of merger costs		(236)	-
Proceeds from disposal of property and equipment		260	115
Interest received from securities held at fair value through profit or loss, available-for-sale securities and held-to-maturity securities		1,658	-
Dividends from securities portfolio		635	434
Net purchase of intangible assets		(924)	(528)
Purchase of property and equipment		(2,764)	(451)
Net cash used in investing activities		(1,371)	(92,658)
Cash flows from financing activities			
Issuance of ordinary shares		-	123,000
Net cash generated from financing activities		-	123,000
Net increase/(decrease) in cash and cash equivalents		423,644	(126,551)
Cash and cash equivalents transferred from HLGS		-	181,121
Cash and cash equivalents at beginning of year		54,674	104
Cash and cash equivalents at end of financial year		478,318	54,674
Cash and cash equivalents comprise:			
Cash and short term funds	2	658,043	238,151
Less: Remisiers' and clients' trust monies		(179,725)	(183,477)
		478,318	54,674

HONG LEONG INVESTMENT BANK BERHAD

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

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

A Basis of preparation of the financial statements

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

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 39.

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank and are effective.

There are no new accounting standards, amendments to published standards and interpretations to existing standards that are applicable and effective for the Group and the Bank for the financial year ended 30 June 2010.

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

The Group and the Bank will apply the following new standards, amendments to standards and interpretations from financial period beginning 1 July 2010 or later periods.

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

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

A Basis of preparation of the financial statements (continued)

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

- Amendments to FRS 101 Presentation of Financial Statement (effective for accounting periods beginning on or after 1 January 2010) separates owner and non-owner changes in equity and introduces the statement of comprehensive income. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The adoption of FRS 101 will require additional disclosure requirements for the Group's and the Bank's financial statements.
- Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2010) allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method and requires investors to present dividends as income in the separate financial statements. The amendments do not have any significant financial impact on the results of the Group and the Bank.
- FRS 139 Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The improvement to FRS 139 clarifies that the scope exemption in FRS139 only applies to forward contracts but not options for business combination that are firmly committed to being completed within a reasonable timeframe. BNM has on 8 January 2010 issued the revised BNM Garis Panduan ("GP3") – "Classification and Impairment Provisions for Loans/Financing", which sets out the minimum requirements on the classifications of impaired loans/financing and allowances for loan/financing impairment effective for annual accounting period beginning on or after 1 January 2010. The guideline also prescribes the use of an alternative basis for collective assessment of impairment for a transitional period for purpose of complying with the collective assessment of impairment requirement in FRS 139. The Group and the Bank will apply this standard and BNM GP3 when effective. Nevertheless, the accounting policies of the Group and the Bank incorporate requirements of the Revised Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8") which includes selected principles of FRS 139.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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

A Basis of preparation of the financial statements (continued)

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

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 January 2010) requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The improvement to IC Interpretation 9 (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture.
- FRS 7 Financial Instruments: Disclosure (effective for accounting periods beginning on or after 1 January 2010) replaces the disclosures requirements currently in FRS 132 Financial Instruments: Disclosures and Presentation. FRS 7 requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, market risk and liquidity risk. The improvement to FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the income statement.

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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

A Basis of preparation of the financial statements (continued)

- (ii) **Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective and have not been early adopted (continued).**
- Revised FRS 3 Business Combination (effective prospectively from 1 July 2010) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of the revised FRS 3 does not have any significant financial impact on the results of the Group and the Bank.
 - FRS 127 Consolidated and Separate Financial Statements (effective prospectively from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of FRS 127 does not have any significant financial impact on the results of the Group and the Bank.
 - Improvement to existing MASB's standards (effective for accounting periods beginning on or after 1 January 2010) are as follows:
 - FRS 5 Non-current Assets Held for Sale and Discontinued Operations. Improvement (effective from 1 January 2010) clarifies that FRS 5 disclosures apply to non-current assets or and discontinued operations. Improvement effective from 1 July 2010 clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met.
 - FRS 107 Statement of Cash Flows (effective from 1 January 2010) clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.
 - FRS 110 Events after the Balance Sheet Date (effective from 1 January 2010) reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

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

A Basis of preparation of the financial statements (continued)

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

- Improvement to existing MASB's standards (effective for accounting periods beginning on or after 1 January 2010) are as follows (continued):
 - FRS 116 Property, Plant and Equipment (effective from 1 January 2010) requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.
 - FRS 117 Leases (effective from 1 January 2010) clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117.
 - FRS 127 Consolidated and Separate Financial Statements (effective from 1 January 2010) clarifies that where an investment in a subsidiary that is accounted for under FRS 139 is classified as held for sale under FRS 5, FRS 139 would continue to be applied.
 - FRS 134 Interim Financial Reporting (effective from 1 January 2010) clarifies that basic and diluted earnings per share ("EPS") must be presented in an interim report only in the case when the entity is required to disclose EPS in its annual report.
 - FRS 136 Impairment of Assets (effective from 1 January 2010) clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment before the aggregation of segments with similar economic characteristics. The improvement also clarifies that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use should be made.

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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

B Economic entities in the Group

(i) Subsidiaries

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

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

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

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

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Summary of Significant Accounting Policies for the financial year ended 30 June 2010 (continued)

B Economic entities in the Group (continued)

(i) Subsidiaries (continued)

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

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

C Goodwill

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

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

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

D Property and equipment and depreciation

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

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Summary of Significant Accounting Policies for the financial year ended 30 June 2010 (continued)

D Property and equipment and depreciation (continued)

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

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

E Intangible assets

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

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

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

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

F Leases

Where the Group and the Bank is the lessee

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Summary of Significant Accounting Policies for the financial year ended 30 June 2010 (continued)

F Leases (continued)

Where the Group and the Bank is the lessee (continued)

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

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

G Securities portfolio

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

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

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

Held-for-trading securities

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

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

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

G Securities portfolio (continued)

(ii) Held-to-maturity securities

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

(iii) Available-for-sale securities

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

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

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

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

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

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

H Receivables

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

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

I Derivative financial instruments

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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

J Cash and cash equivalents

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

K Provisions

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

L Income taxes

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

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

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

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

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Summary of Significant Accounting Policies for the financial year ended 30 June 2010 (continued)

M Recognition of interest income

(i) Recognition of interest income from loans and advances

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

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

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

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

(ii) Recognition of other interest income

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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

N Recognition of fees and other income

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

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

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

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

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

O Employee benefits

Short term employee benefits

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

Defined contribution plans

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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

P Allowances for losses on loans and advances and other losses

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

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

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

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

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

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

Q Impairment of assets

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Summary of Significant Accounting Policies for the financial year ended 30 June 2010 (continued)

Q Impairment of assets (continued)

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

R Impairment of securities portfolio

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

(i) Securities carried at amortised cost

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

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

(ii) Securities carried at fair value

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Summary of Significant Accounting Policies for the financial year ended 30 June 2010 (continued)

S Currency translations

(i) Functional and presentation currency

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

(ii) Foreign currency transactions and balances

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

T Contingent liabilities and contingent assets

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

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

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Notes to the financial statements for the financial year ended 30 June 2010

1 General information

The principal activities of the Bank are engaged in stock and securities broking and investment banking business.

The principal activities of the subsidiary companies are nominee services.

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

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

2 Cash and short-term funds

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	317,344	41,528	314,834	40,656
Money at call and deposit placements maturing within one month	343,209	197,495	343,209	197,495
	<u>660,553</u>	<u>239,023</u>	<u>658,043</u>	<u>238,151</u>

Included in cash and short term funds of the Group and the Bank are trust accounts maintained in trust for clients' and dealers' representatives amounting to RM179,725,000 (2009: RM183,477,000).

3 Deposits and placements with banks

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	<u>45,000</u>	<u>24</u>

HONG LEONG INVESTMENT BANK BERHAD

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Notes to the financial statements for the financial year ended 30 June 2010

4 Securities held at fair value through profit or loss

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
<i>Held-for-trading</i>		
Money market instruments		
Negotiable instruments of deposits	45,003	-
Private and Islamic debt securities	190,543	-
Bank Negara Bills	188,748	-
	<u>424,294</u>	<u>-</u>
Quoted securities		
Shares quoted in Malaysia	7,117	6,101
	<u>431,411</u>	<u>6,101</u>

5 Available for sale securities

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Unquoted securities		
Unquoted shares in Malaysia	245	245

6 Held-to-maturity securities

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

7 Loans and advances

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

HONG LEONG INVESTMENT BANK BERHAD

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Notes to the financial statements for the financial year ended 30 June 2010

7 Loan and advances (continued)

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

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Maturing within :		
- one year	122,410	86,114
Gross loans and advances	<u>122,410</u>	<u>86,114</u>

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

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

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

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

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

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

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Notes to the financial statements for the financial year ended 30 June 2010

7 Loan and advances (continued)

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

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

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

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
At 1 July	2,521	-
Amount arising from acquisition of SBB Securities Sdn Bhd ("SBBS")	-	1,114
Amount vested over from HLG Securities Sdn Bhd ("HLGS")	-	1,342
Non-performing during the year	178	104
Amount written back	(11)	(39)
At 30 June	2,688	2,521
Specific allowance	(2,688)	(2,521)
Net non-performing loans and advances	-	-
Ratio of non-performing loans to total loans and advances net of specific allowance	0.0%	0.0%

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

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Specific allowance				
At 1 July	2,521	-	2,521	-
Amount vested over from HLGS	-	1,342	-	1,342
Allowances made during the year	178	104	178	104
Allowances arising from loan and advances acquired from SBBS	-	1,170	-	1,114
Amount written back	(11)	(95)	(11)	(39)
At 30 July	2,688	2,521	2,688	2,521

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Notes to the financial statements for the financial year ended 30 June 2010

7 Loan and advances (continued)

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

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
General allowance				
At 1 July	1,254	-	1,254	-
Amount vested over from HLGS	-	384	-	384
Amount arising from acquisition of Southern Investment Bank Berhad ("SIBB")	-	524	-	524
Allowances arising from loan and advances acquired from SBBS	-	178	-	178
Allowances made during the year	542	168	542	168
At 30 July	<u>1,796</u>	<u>1,254</u>	<u>1,796</u>	<u>1,254</u>
(as % of total loans less specific allowances)	<u>1.5%</u>	<u>1.5%</u>	<u>1.5%</u>	<u>1.5%</u>

8 Clients' and brokers' balances

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

	The Group and The Bank	
	2010 RM'000	2009 RM'000
Performing accounts	80,456	187,518
Non-performing accounts - Bad	37,525	73,406
- Doubtful	288	53
	<u>118,269</u>	<u>260,977</u>
Less: Allowance for bad and doubtful debts		
- specific	(37,043)	(73,432)
- general	(9)	(50)
- interest in suspense	(627)	(46,687)
	<u>80,590</u>	<u>140,808</u>

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Notes to the financial statements for the financial year ended 30 June 2010

8 Clients' and brokers' balances (continued)

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

	The Group and The Bank	
	2010 RM'000	2009 RM'000
<u>Specific allowance</u>		
At 1 July	73,432	-
Amount vested over from HLGS	-	74,651
Allowance made during the financial year	831	-
Allowances written back in respect of recoveries	(417)	(1,219)
Amount written off	(36,803)	-
At 30 June	<u>37,043</u>	<u>73,432</u>
<u>General allowance</u>		
At 1 July	50	-
Amount vested over from HLGS	-	10
Allowance (written back)/made during the financial year	(41)	40
At 30 June	<u>9</u>	<u>50</u>
<u>Interest in suspense</u>		
At 1 July	46,687	-
Amount vested over from HLGS	-	45,610
Interest suspended during the financial year	5,387	1,077
Interest in suspense written off	(51,447)	-
At 30 June	<u>627</u>	<u>46,687</u>

9 Other receivables

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Interest receivable	4,008	3	4,008	3
Derivative financial instruments (Note 19)	23	-	23	-
Amount due from subsidiary companies	-	-	745	129
Other receivables, deposits and prepayments	9,269	11,090	10,556	11,087
	<u>13,300</u>	<u>11,093</u>	<u>15,332</u>	<u>11,219</u>

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Notes to the financial statements for the financial year ended 30 June 2010

10 Statutory deposits with Bank Negara Malaysia ("BNM")

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

11 Investment in subsidiary companies

Subsidiary companies:

Unquoted shares at cost

The Bank	
2010	2009
RM'000	RM'000
588	588

The subsidiary companies of the Bank are as follows:

Name	Place of incorporation	Effective percentage of ownership		Principal activities
		2010	2009	
		%	%	
HLG Nominee (Tempatan) Sdn Bhd	Malaysia	100	100	Agent and nominee for Malaysian clients
HLG Nominee (Asing) Sdn Bhd	Malaysia	100	100	Agent and nominee for foreign clients
RC Holdings Sdn Bhd	Malaysia	100	100	Dormant
RC Research Sdn Bhd	Malaysia	100	100	Dormant
RC Nominee (Tempatan) Sdn Bhd	Malaysia	100	100	Dormant
RC Nominee (Asing) Sdn Bhd	Malaysia	100	100	Dormant

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Notes to the financial statements for the financial year ended 30 June 2010

12 Deferred Taxation

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

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Deferred tax assets	(a) 52,699	58,796
Deferred tax liabilities	(b) (102)	(604)
	<u>52,597</u>	<u>58,192</u>

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
At 1 July	58,192	-
Amount vested over from HLGS	-	895
Amount arising from acquisition of SBBS	-	72
Transfer (from)/ to income statement (Note 31)	(5,595)	57,225
At 30 June	<u>52,597</u>	<u>58,192</u>

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

(a) Deferred tax assets

	General allowance	Unabsorbed tax losses	Other	Total
			temporary differences	
	RM'000	RM'000	RM'000	RM'000
The Group and The Bank				
At 1 July 2009	327	57,231	1,238	58,796
Credited/(Charged) to income statement	124	(5,595)	(626)	(6,097)
At 30 June 2010	<u>451</u>	<u>51,636</u>	<u>612</u>	<u>52,699</u>
At 1 July 2008	-	-	-	-
Amount vested over from HLGS	129	-	1,208	1,337
Credited to income statement	198	57,231	30	57,459
At 30 June 2009	<u>327</u>	<u>57,231</u>	<u>1,238</u>	<u>58,796</u>

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Notes to the financial statements for the financial year ended 30 June 2010

12 Deferred Taxation (continued)

(b) Deferred tax liabilities

	Property and equipment RM'000	Available-for- sale securities RM'000	Total RM'000
The Group and The Bank			
At 1 July 2009	604	-	604
Credited to income statement	(502)	-	(502)
At 30 June 2010	<u>102</u>	<u>-</u>	<u>102</u>
At 1 July 2008	-	-	-
Amount vested over from HLGS	271	171	442
Amount arising from acquisition of SBBS	(72)	-	(72)
Charged/(Credited) to income statement	405	(171)	234
At 30 June 2009	<u>604</u>	<u>-</u>	<u>604</u>

13 Prepaid lease payments

	2010 Leasehold land less than 50 years RM'000	2009 Leasehold land 50 years or more RM'000
The Group and The Bank		
Cost		
At 1 July	1,133	-
Amount arising from acquisition of SBBS	-	1,133
At 30 June	<u>1,133</u>	<u>1,133</u>
Amortisation		
At 1 July	(1)	-
Amortisation during the year	(1)	(1)
At 30 June	<u>(2)</u>	<u>(1)</u>
Net book value	<u>1,131</u>	<u>1,132</u>

Future amortisation of prepaid lease payments are as follows:

The Group and The Bank		
- Not later than 1 year	1	1
- Later than 1 year and not later than 5 years	4	4
- Later than 5 years	1,126	1,127
	<u>1,131</u>	<u>1,132</u>

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Notes to the financial statements for the financial year ended 30 June 2010

14 Property and equipment

	Leasehold building RM'000	Office and computer equipment RM'000	Furniture, fittings, and renovations RM'000	Motor vehicles RM'000	Total RM'000
The Group					
Net book value at 1 July 2009	860	2,131	1,130	89	4,210
Additions	-	877	1,499	388	2,764
Disposals	-	-	(2)	(10)	(12)
Depreciation	(17)	(1,094)	(453)	(102)	(1,666)
Net book value at 30 June 2010	843	1,914	2,174	365	5,296
At 30 June 2010					
Cost	867	13,704	9,212	1,169	24,952
Accumulated depreciation	(24)	(11,790)	(7,038)	(804)	(19,656)
Net book value	843	1,914	2,174	365	5,296
The Group					
Net book value at 1 July 2008	-	-	-	-	-
Amount vested over from HLGS	-	1,274	1,021	137	2,432
Amount arising from acquisition of SBBS	871	489	82	17	1,459
Amount arising from acquisition of SIBB	-	16	-	-	16
Additions	-	846	184	7	1,037
Disposals	-	-	-	(43)	(43)
Depreciation	(11)	(494)	(157)	(29)	(691)
Net book value at 30 June 2009	860	2,131	1,130	89	4,210
At 30 June 2009					
Cost	867	12,827	7,715	791	22,200
Accumulated depreciation	(7)	(10,696)	(6,585)	(702)	(17,990)
Net book value	860	2,131	1,130	89	4,210

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14 Property and equipment (continued)

	Leasehold building RM'000	Office and computer equipment RM'000	Furniture, fittings, and renovations RM'000	Motor vehicles RM'000	Total RM'000
The Bank					
Net book value at 1 July 2009	860	2,131	1,130	89	4,210
Additions	-	877	1,499	388	2,764
Disposals	-	-	(2)	(10)	(12)
Depreciation	(17)	(1,094)	(453)	(102)	(1,666)
Net book value at 30 June 2010	<u>843</u>	<u>1,914</u>	<u>2,174</u>	<u>365</u>	<u>5,296</u>

At 30 June 2010					
Cost	867	13,704	9,212	1,169	24,952
Accumulated depreciation	(24)	(11,790)	(7,038)	(804)	(19,656)
Net book value	<u>843</u>	<u>1,914</u>	<u>2,174</u>	<u>365</u>	<u>5,296</u>

	Leasehold building RM'000	Office and computer equipment RM'000	Furniture, fittings, and renovations RM'000	Motor vehicles RM'000	Total RM'000
The Bank					
Net book value at 1 July 2008	-	-	-	-	-
Amount vested over from HLGS	-	1,274	1,021	137	2,432
Amount arising from acquisition of SBBS	867	992	82	14	1,955
Amount arising from acquisition of SIBB	-	16	-	-	16
Additions	-	260	184	7	451
Disposals	-	-	-	(43)	(43)
Depreciation	(7)	(411)	(157)	(26)	(601)
Net book value at 30 June 2009	<u>860</u>	<u>2,131</u>	<u>1,130</u>	<u>89</u>	<u>4,210</u>

At 30 June 2009					
Cost	867	12,827	7,715	791	22,200
Accumulated depreciation	(7)	(10,696)	(6,585)	(702)	(17,990)
Net book value	<u>860</u>	<u>2,131</u>	<u>1,130</u>	<u>89</u>	<u>4,210</u>

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15 Goodwill

	The Group		The Bank	
	2010	2009	2010	2,009
	RM'000	RM'000	RM'000	RM'000
Cost				
At 1 July	28,750	-	30,000	-
Goodwill arising from acquisition of SBBS and SIBB	-	85,396	-	86,646
Goodwill arising from acquisition of HLGS	-	590	-	590
Goodwill arising during the year	236	-	236	-
Impairment made during the year	-	(57,236)	-	(57,236)
At 30 June	<u>28,986</u>	<u>28,750</u>	<u>30,236</u>	<u>30,000</u>

Allocation of goodwill to cash-generating units

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

	The Group		The Bank	
	2010	2009	2010	2,009
	RM'000	RM'000	RM'000	RM'000
CGU				
Investment banking and stock broking	<u>28,986</u>	<u>28,750</u>	<u>30,236</u>	<u>30,000</u>

Impairment test on goodwill

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

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

An impairment charge of RM57,236,000 was recognised in 2009 for goodwill arising from the investment banking and stockbroking segment.

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

Management believes that any reasonable possible change to the assumptions applied is not likely cause the recoverable amount to be lower than carrying amount.

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16 Intangible assets - Computer software

	The Group and The Bank	
	2010 RM'000	2009 RM'000
Cost		
At 1 July	8,721	-
Amount vested over from HLGS	-	8,150
Amount arising from acquisition of SIBB	-	43
Additions	935	528
Transfer	(11)	-
At 30 June	<u>9,645</u>	<u>8,721</u>
Amortisation		
At 1 July	(7,784)	-
Amount vested over from HLGS	-	(7,598)
Additions	(632)	(186)
At 30 June	<u>(8,416)</u>	<u>(7,784)</u>
Net book value	<u>1,229</u>	<u>937</u>

17 Deposits from customers

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

18 Deposits and placements of other financial institutions

	The Group and The Bank	
	2010 RM'000	2009 RM'000
Licensed banks	61,000	-
Other financial institutions	<u>539,990</u>	<u>9,820</u>
	<u>600,990</u>	<u>9,820</u>

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19 Derivative financial instruments

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Derivatives at fair value through profit or loss		
- Interest rate swaps	23	-
Total derivative financial assets	<u>23</u>	<u>-</u>
Derivatives at fair value through profit or loss		
- Futures	(1,194)	-
Total derivative financial liabilities	<u>(1,194)</u>	<u>-</u>

20 Clients' and brokers' balances

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM153,563,000 (2009: RM152,706,000).

21 Payables and other liabilities

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Amount due to subsidiary companies	-	-	89	95
Amount due to holding company	272	8,645	272	8,645
Remisiers' trust deposits	10,687	12,816	10,687	12,816
Other payables and accrued liabilities (Note a)	295,846	13,913	297,011	13,887
Interest payable	703	39	703	39
Post employment benefits obligation				
- defined contribution plan	420	850	420	850
Derivative financial instruments (Note 19)	1,194	-	1,194	-
	<u>309,122</u>	<u>36,263</u>	<u>310,376</u>	<u>36,332</u>

The amount due to holding company and subsidiary companies are unsecured, interest free and repayable on demand.

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

- A net balance of RM6,263,000 derived from a bond amounting to RM177,750,000 set off against deposit from customer and coupon received on the bond of RM184,013,000. The terms of the arrangement of the acquisition of the bond required the issuer of the bond to deposit at least an amount equivalent or higher with the Bank. The net amount of RM6,263,000 is presented in the balance sheet in accordance with FRS 132 Financial Instruments: Presentation, where the Bank has a legally enforceable right to set off the recognised amounts and has the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.
- An amount received from a customer of RM280 million which is to be placed as fixed deposits on 1 July 2010.

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22 Share Capital

	The Bank	
	2010	2009
	RM'000	RM'000
Authorised:		
Ordinary shares of RM1.00 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid capital:		
Ordinary shares of RM1.00 each		
At 1 July	123,500	500
Issued during the year	<u>142,035</u>	<u>123,000</u>
At 30 June	<u>265,535</u>	<u>123,500</u>

On 30 March 2010, the Bank issued 142,035,171 units of fully paid up ordinary shares at the par value of RM1.00 each, out of the existing share premium account.

23 Redeemable preference shares

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Authorised:		
Non-cumulative redeemable preference shares of RM0.01 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid capital:		
Non-cumulative redeemable preference shares of RM0.01 each		
At 1 July	1,631	-
Issued during the year	-	<u>1,631</u>
At 30 June	<u>1,631</u>	<u>1,631</u>

On 31 March 2009, Bank Negara Malaysia had approved for the authorised ordinary shares of RM1,000,000,000 to be divided into 600,000,000 ordinary shares of RM1.00 each and 40,000,000,000 non-cumulative redeemable preference shares ("RPS") of RM0.01 each.

On the same day, the Bank had issued 163,076,524 RPS of RM0.01 each at a premium of RM0.99 per share to HLGS pursuant to the vesting of the securities business to the Bank. The RPS issued by the Bank are recorded at a value equal to the existing book values of net assets of HLGS as at date of transfer and original goodwill recorded at the holding company of the Bank.

The main features of the RPS are as follows:

- The RPS have right to dividends at the discretion of the Directors of the Bank.
- The RPS rank pari passu in all aspects among themselves.
- The RPS will not be convertible into ordinary shares.
- The RPS have no fixed maturity date.
- The RPS will not be listed on any stock exchange.

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24 Reserves

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Retained profits	9,415	2,743	10,644	3,963
Share premium	(a) -	142,035	-	142,035
Statutory reserve	(b) 11,044	4,362	11,044	4,362
	<u>20,459</u>	<u>149,140</u>	<u>21,688</u>	<u>150,360</u>

(a) Share premium arising from redeemable preference shares issued by the Bank was utilised to issue 142,035,171 units of fully paid up ordinary shares of RM1.00 each on 30 March 2010.

(b) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividend.

25 Interest income

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	6,211	3,027	6,211	2,620
Money at call and deposit placements with financial institutions	2,799	578	2,799	313
Securities held at fair value through profit or loss	2,603	-	2,603	-
Available-for-sale securities	2,328	-	2,328	-
Held-to-maturity securities	292	-	292	-
Others	5,914	888	5,914	849
	<u>20,147</u>	<u>4,493</u>	<u>20,147</u>	<u>3,782</u>
Accretion of discount less amortisation of premium	(115)	-	(115)	-
Interest suspended	(5,387)	(1,077)	(5,387)	(1,077)
	<u>14,645</u>	<u>3,416</u>	<u>14,645</u>	<u>2,705</u>

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26 Interest expense

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits and placements of banks and other financial institutions	1,151	189	1,151	189
Deposits from customers	2,796	5	2,796	5
	<u>3,947</u>	<u>194</u>	<u>3,947</u>	<u>194</u>

27 Non-interest income

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Fee income				
Brokerage income	42,264	21,415	42,264	20,007
Service charges and fees	6,891	228	6,891	208
Other fee income	2,589	328	2,375	317
	<u>51,744</u>	<u>21,971</u>	<u>51,530</u>	<u>20,532</u>
Net income from securities				
Net realised gain from sale of securities held at fair value through profit or loss	897	-	897	-
Dividend income from:				
- securities held at fair value through profit or loss	598	401	598	401
- available-for-sale securities	37	44	37	44
Net unrealised gain on revaluation of securities held at fair value through profit or loss	1,448	718	1,448	718
	<u>2,980</u>	<u>1,163</u>	<u>2,980</u>	<u>1,163</u>
Other income				
Gain on sale of property and equipment	248	72	248	72
Foreign exchange gain	163	-	163	-
Other non-operating income	175	97	175	69
	<u>586</u>	<u>169</u>	<u>586</u>	<u>141</u>
	<u>55,310</u>	<u>23,303</u>	<u>55,096</u>	<u>21,836</u>

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28 Overhead expenses

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Personnel costs	25,982	11,605	25,826	9,380
Establishment costs	11,251	5,338	11,251	4,443
Marketing expenses	636	205	636	175
Administration and general expenses	8,149	2,760	8,082	2,560
	46,018	19,908	45,795	16,558

(i) Personnel costs comprise the following:

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Salaries, bonus and allowances	20,640	7,000	20,505	6,128
Voluntary Separation Scheme ("VSS") compensation	-	3,364	-	2,184
Other employees benefits	5,342	1,241	5,321	1,068
	25,982	11,605	25,826	9,380

(ii) Establishment costs comprise the following:

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Depreciation of property and equipment	1,666	691	1,666	601
Amortisation of intangible assets	632	186	632	186
Rental of premises	3,835	2,074	3,835	1,623
Information technology expenses	4,123	1,784	4,123	1,675
Others	995	603	995	358
	11,251	5,338	11,251	4,443

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28 Overhead expenses (continued)

(iii) Marketing expenses comprise the following:

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Advertisement and publicity	22	4	22	4
Entertainment and business improvements	495	84	495	69
Travelling expenses	100	91	100	76
Others	19	26	19	26
	<u>636</u>	<u>205</u>	<u>636</u>	<u>175</u>

(iv) Administration and general expenses comprise the following:

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Teletransmission expenses	983	736	983	647
Stationery and printing expenses	436	197	435	183
Professional fees	2,843	492	2,834	479
Central Depository System ('CDS') fees	223	264	223	259
Stamp, postage and courier	390	218	370	203
Management fee	1,032	458	1,032	458
Auditors' remuneration:				
- statutory audit	136	136	127	120
- other fees	-	20	-	20
Others	2,106	239	2,078	191
	<u>8,149</u>	<u>2,760</u>	<u>8,082</u>	<u>2,560</u>

Included in the personnel costs of the Group and the Bank are Directors' remuneration totalling RM4,383,000 (2009: RM89,000).

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29 Allowance for/(writeback of) losses on loans and advances and other losses

	The Group		The Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Allowance for losses on loans and advances:				
(a) Specific allowance				
- made during the financial year	178	104	178	104
- written back	(11)	(95)	(11)	(39)
(b) General allowance				
- made during the financial year	542	168	542	168
	709	177	709	233
Bad debts on loans and advances				
- Recovered	(41)	-	(41)	-
Allowance for losses on clients' and brokers' balances				
(a) Specific allowance				
- made during the financial year	831	-	831	-
- written back	(417)	(1,219)	(417)	(1,219)
(b) General allowance				
- (written back)/made during the financial year	(41)	40	(41)	40
	373	(1,179)	373	(1,179)
	1,041	(1,002)	1,041	(946)

30 Directors' remuneration

Forms of remuneration in aggregate for all Directors for the year are as follows :

	The Group and The Bank	
	2010 RM'000	2009 RM'000
Managing Director (appointed as Executive Director on 24 November 2010):		
- Salaries and other emoluments	4,156	-
- Benefits-in-kind	6	-
	4,162	-
Non-Executive Directors:		
- Fees	221	89
Total	4,383	89

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

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31 Taxation

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax	-	104	-	-
Transfer from/(to) deferred taxation				
- current year	5,595	(57,225)	5,595	(57,225)
	<u>5,595</u>	<u>(57,121)</u>	<u>5,595</u>	<u>(57,225)</u>

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

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before taxation	<u>18,949</u>	<u>(49,617)</u>	<u>18,958</u>	<u>(48,501)</u>
Tax calculated at a rate of 25% (2009: 25%)	4,737	(12,404)	4,740	(12,125)
Tax effects of:				
- Income not subject to tax	-	(55)	-	(55)
- Expenses not deductible for tax purposes	858	14,498	855	14,488
- Previously unrecognised tax losses	-	(57,231)	-	(57,231)
- Tax savings from utilisation of brought forward losses	-	(2,302)	-	(2,302)
- Other temporary differences not recognised previously	-	373	-	-
Taxation	<u>5,595</u>	<u>(57,121)</u>	<u>5,595</u>	<u>(57,225)</u>

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32 Earning per share

The basic earnings per share has been calculated by dividing the net profit for the financial year of the Group and the Bank by the number of ordinary shares in issue during the financial year as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Weighted average number of number of ordinary shares in issue	159,301	31,503	159,301	31,503
Net profit attributable to equity holders of the Bank	13,354	7,504	13,363	8,724
Basic earnings per share (sen)	<u>8.4</u>	<u>23.8</u>	<u>8.4</u>	<u>27.7</u>

There is no diluted earnings/(loss) per share as the Group and the Bank have no category of dilutive potential ordinary shares.

33 Commitments and Contingencies

In the normal course of business, the Bank makes various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these

The Group and The Bank

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

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36 Capital adequacy

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

The capital ratios of the Bank are computed in accordance with BNM's revised Risk Weighted Capital Adequacy Framework (Basel II).

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

	The Bank	
	2010	2009
	RM'000	RM'000
Before and after deducting proposed dividends:		
Core capital ratio	33.06%	17.59%
Risk-weighted capital ratio	<u>33.52%</u>	<u>34.94%</u>

(ii) The components of Tier 1 and Tier II Capital of the Bank are as follows:

	The Bank	
	2010	2009
	RM'000	RM'000
Tier-1 capital		
Paid-up ordinary share capital	265,535	123,500
Other reserves	21,688	8,325
Less: Goodwill	(30,236)	(30,000)
Less: Deferred tax assets - net	(52,597)	(58,192)
Total Tier-1 capital	<u>204,390</u>	<u>43,633</u>
Tier-2 capital		
Redeemable preference shares ("RPS")	1,631	1,631
Share premium on RPS	-	142,035
General allowance for losses on loans and advances, and other losses	<u>1,805</u>	<u>1,304</u>
Total Tier-2 capital	<u>3,436</u>	<u>144,970</u>
Eligible Tier-2 capital	<u>3,436</u>	<u>43,633</u>
Total capital	207,826	87,266
Less: Investment in subsidiaries	(588)	(588)
Total capital base	<u>207,238</u>	<u>86,678</u>

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36 Capital adequacy (continued)

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

	The Bank	
	2010	2009
	RM'000	RM'000
Credit risk	356,198	190,214
Market risk	177,473	12,202
Operational risk	84,507	45,653
	<u>618,178</u>	<u>248,069</u>

(iv) Breakdown of risk-weighted assets ("RWA") by exposures in each major risk categories of the Bank:

2010				
The Bank				
Exposure class	Gross exposure	Net exposure	Risk weighted	Capital
	RM'000	RM'000	assets	requirement
			RM'000	RM'000
<i>Credit Risk</i>				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	25,799	25,799	-	-
Banks, Development Financial Institutions & MDBs	738,779	738,779	147,756	11,820
Corporates	77,227	77,227	76,055	6,084
Other assets	19,121	19,121	19,099	1,528
Equity exposure	124,805	124,805	113,084	9,047
Total for On-Balance Sheet Exposures	<u>985,731</u>	<u>985,731</u>	<u>355,994</u>	<u>28,479</u>
<i>Off-Balance Sheet Exposures</i>				
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,021	1,021	204	16
Total for Off-Balance Sheet exposures	<u>1,021</u>	<u>1,021</u>	<u>204</u>	<u>16</u>
Total On and Off-Balance Sheet exposures	<u>986,752</u>	<u>986,752</u>	<u>356,198</u>	<u>28,495</u>
Market risk				
	Long Position	Short Position		
Interest Rate Risk	3,484,640	3,105,307	379,333	12,631
Foreign Currency Risk	10	-	10	1
Equity Risk	7,117	-	7,117	1,566
			<u>177,473</u>	<u>14,198</u>
Operational risk			<u>84,507</u>	<u>6,761</u>
Total RWA and Capital Requirement			<u>618,178</u>	<u>49,454</u>

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33 Commitments and Contingencies (continued)

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

34 Capital commitments

Property and equipment

- Approved and contracted but not provided for
- Approved but not contracted for

The Group and The Bank	
2010	2009
RM'000	RM'000
964	-
115	1,388
<u>1,079</u>	<u>1,388</u>

35 Lease commitments

The Group and the Bank 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 and The Bank	
2010	2009
RM'000	RM'000
4,255	1,799
6,254	161

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36 Capital adequacy (continued)

(iv) Breakdown of risk-weighted assets ("RWA") by exposures in each major risk categories of the Bank (continued):

2009

The Bank

Exposure Class	Gross exposure RM'000	Net exposure RM'000	Risk weighted assets RM'000	Capital requirement RM'000
<u>Credit Risk</u>				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	15	15	-	-
Banks, Development Financial Institutions & MDBs	238,152	238,152	47,630	3,810
Corporates	31,112	31,112	31,112	2,489
Equity exposure	93,612	93,612	93,612	7,489
Other assets	17,882	17,882	17,860	1,429
Defaulted exposures	-	-	-	-
Total for On-Balance Sheet Exposures	380,773	380,773	190,214	15,217
<i>Off-Balance Sheet Exposures</i>				
OTC derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	-	-	-	-
Defaulted exposures	-	-	-	-
Total for Off-Balance Sheet exposures	-	-	-	-
Total On and Off-Balance Sheet exposures	380,773	380,773	190,214	15,217
Market risk				
	Long Position	Short Position		
Interest Rate Risk	-	-	-	-
Foreign Currency Risk	-	-	-	-
Equity Risk	6,101	-	6,101	976
			<u>12,202</u>	<u>976</u>
Operational risk			<u>45,653</u>	<u>3,652</u>
Total RWA and Capital Requirement			<u>248,069</u>	<u>19,845</u>

The Bank does not have any issuances of Profit-sharing Investment Account ("PSIA") used as a risk absorbent.

The Bank has adopted the Standardised Approach for credit risk and market risk and Basic Indicator Approach for operational risk computation.

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36 Capital adequacy (continued)

(v) Off-Balance Sheet exposures and their related counterparty credit risk of the Bank are as follows:

2010

The Bank

	Total principal amount RM'000	Total credit equivalent amount RM'000	Positive fair value of derivative contracts RM'000	Total risk weighted amount RM'000
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	680,000	-	-	-
- Over one year to five years	2,545,000	1,021	21	204
	<u>3,225,000</u>	<u>1,021</u>	<u>21</u>	<u>204</u>
Commitments				
Any commitment that are unconditionally cancelled at any time by the bank without prior notice				
- maturity less than 1 year	267,940	-	-	-
	<u>3,492,940</u>	<u>1,021</u>	<u>21</u>	<u>204</u>

2009

The Bank

	Total principal amount RM'000	Total credit equivalent amount RM'000	Positive fair value of derivative contracts RM'000	Total risk weighted amount RM'000
Commitments				
Any commitment that are unconditionally cancelled at any time by the bank without prior notice				
- maturity less than 1 year	327,475	-	-	-
	<u>327,475</u>	<u>-</u>	<u>-</u>	<u>-</u>

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36 Capital adequacy (continued)

(vi) Disclosures on risk weights under the Standardised Approach:

The Bank 2010	Exposures after Netting and Credit Risk Mitigation					Total risk weighted assets RM000
	Supervisory Risk Weights %	Sovereigns & central banks RM000	MDBs and FDIs RM000	Banks, and RM000	Other assets RM000	
0%	25,799	-	-	22	-	25,821
20%	-	738,779	1,465	-	14,651	754,895
100%	-	-	75,762	19,099	110,154	205,015
Total	25,799	738,779	77,227	19,121	124,805	985,731

The Bank 2009	Exposures after Netting and Credit Risk Mitigation					Total risk weighted assets RM000
	Supervisory Risk Weights %	Sovereigns & central banks RM000	MDBs and FDIs RM000	Banks, and RM000	Other assets RM000	
0%	15	-	-	22	-	37
20%	-	238,152	-	-	-	238,152
100%	-	-	31,112	17,860	93,612	142,584
Total	15	238,152	31,112	17,882	93,612	380,773

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37 Significant related party transactions

(a) Related parties and relationships

The related parties of and their relationships with the Bank are as

<u>Related parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
Hong Leong Financial Group Berhad	Penultimate holding company
HLG Capital Berhad	Immediate holding company
Subsidiary companies of HLG Capital Berhad as disclosed in its financial statements	Subsidiary companies of immediate holding company
Subsidiary companies of Hong Leong Financial Group Berhad as disclosed in its financial statements	Subsidiary companies of Penultimate holding company
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
Hume Industries (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
Subsidiary companies of the Bank as disclosed in Note 11	Subsidiary companies of the Bank
Key management personnel	The key management personnel of the Bank consists of: - All Directors of the Bank and four members of senior management of the Bank
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

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37 Significant related party transactions (continued)

(b) Related parties transactions

Transactions with related parties are as follows:

	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
The Group 2010			
Income			
Brokerage income	-	2,851	67
Expenditure			
Rental	-	2,269	-
Management fees	-	1,032	-
Other miscellaneous expenses	-	337	-
	-	3,638	-
Amounts due from:			
Current account	-	170,476	-
Amounts due to:			
Interbank placements	-	5,000	-
Others	272	-	-
	272	5,000	-
The Group 2009			
Income			
Brokerage income	-	1,156	39
Interest on interbank placements	-	232	-
Dividends received	-	140	-
	-	1,528	39
Expenditure			
Rental	-	816	-
Interest on interbank borrowings	-	66	-
Management fees	92	366	-
Other miscellaneous expenses	-	146	-
	92	1,394	-
Amounts due from:			
Current account	-	10,067	-
Interbank placements	-	171,098	-
Interest receivable on interbank placements	-	2	-
	-	181,167	-
Amounts due to:			
Others	8,645	-	-
	8,645	-	-

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37 Significant related party transactions (continued)

(b) Related party transactions (continued)

Transactions with related parties are as follows (continued):

	Parent company RM'000	Subsidiaries RM'000	Other related companies RM'000	Key management personnel RM'000
The Bank				
2010				
Income				
Brokerage income	-	-	2,851	67
Expenditure				
Rental	-	-	2,269	-
Management fees	-	-	1,032	-
Other miscellaneous expenses	-	-	337	-
	-	-	3,638	-
Amounts due from:				
Current account	-	-	170,476	-
Amounts due to:				
Interbank placements	-	-	5,000	-
Others	272	-	-	-
	272	-	5,000	-
	Parent company RM'000	Subsidiaries RM'000	Other related companies RM'000	Key management personnel RM'000
The Bank				
2009				
Income				
Brokerage income	-	-	1,156	39
Interest on interbank placements	-	-	232	-
Dividends received	-	-	140	-
	-	-	1,528	39
Expenditure				
Rental	-	-	816	-
Interest on interbank borrowings	-	-	66	-
Management fees	92	-	366	-
Other miscellaneous expenses	-	-	146	-
	92	-	1,394	-
Amounts due from:				
Current account	-	-	10,067	-
Interbank placements	-	-	171,098	-
Interest receivable on interbank placements	-	-	2	-
Others	-	129	-	-
	-	129	181,167	-
Amounts due to:	8,645	95	-	-
Others	8,645	95	-	-

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37 Significant related party transactions (continued)

(c) Key management personnel

Key management compensation

	The Group and The Bank	
	2010	2009
	RM'000	RM'000
Salaries and other short-term employee benefits	4,162	644
Defined contribution plan	499	-
	<u>4,661</u>	<u>644</u>

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

(d) Credit transactions and exposures with connected parties

There are no credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

38 Financial instruments

Risk management objectives and policies

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

Credit Risk

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

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

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

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38 Financial instruments (continued)

Market Risk

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

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

Interest rate risk

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

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

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

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

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38 Financial instruments (continued)

Liquidity Risk

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

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

Operational Risk

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

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38 Financial instruments (continued)

(a) Interest rate risk

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

Assets	The Group 2010						Effective interest rate %	
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000		Total RM'000
Cash and short term funds	343,209	-	-	-	-	-	660,553	2.5
Deposits and placements with banks	-	45,000	-	-	-	-	45,000	2.7
Securities held at fair value through profit or loss	-	-	-	-	-	431,411	431,411	3.6
Available-for-sale securities	-	-	-	-	245	-	245	-
Hold-to-maturity securities	10,000	-	-	-	-	-	10,000	2.6
Loans and advances	-	-	-	-	-	-	-	-
- performing	72,760	46,962	-	-	(1,796) [^]	-	117,926	5.6
- non performing	-	-	-	-	-	-	-	-
Clients' and brokers' balances	-	-	-	-	80,590	-	80,590	-
Other receivables	-	-	-	-	13,300	-	13,300	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	4,000	-	4,000	-
Tax recoverable	-	-	-	-	131	-	131	-
Deferred tax assets	-	-	-	-	52,597	-	52,597	-
Prepaid lease payments	-	-	-	-	1,131	-	1,131	-
Property and equipment	-	-	-	-	5,296	-	5,296	-
Goodwill	-	-	-	-	28,986	-	28,986	-
Intangible assets	-	-	-	-	1,229	-	1,229	-
Total assets	425,969	91,962	-	-	503,053	431,411	1,452,395	

[^] Includes specific allowances and general allowances amounting to RM4,484,000 (2009: RM3,775,000).

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38 Financial instruments (continued)

(a) Interest rate risk (continued)

Liabilities	The Group 2010					Effective interest rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	Non-trading book >3 -12 months RM'000	1 - 5 years RM'000	Non-interest sensitive RM'000		Trading book RM'000
Deposits from customers	31,218	-	-	-	-	-	31,218
Deposits and placements of other financial institutions	559,790	39,339	1,861	-	-	-	600,990
Clients' and brokers' balances	-	-	-	-	223,440	-	223,440
Payables and other liabilities	-	-	-	-	309,122	-	309,122
Total liabilities	591,008	39,339	1,861	-	532,562	-	1,164,770
Total interest rate sensitivity gap	(165,039)	52,623	(1,861)	-	-	-	-

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38 Financial instruments (continued)

(a) Interest rate risk (continued)

Assets	Non-trading book				The Group 2009		Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	
Cash and short term funds	197,495	-	-	41,528	-	239,023	1.9
Deposits and placements with banks	-	24	-	-	-	24	1.8
Securities held at fair value through profit or loss	-	-	-	-	6,101	6,101	-
Available-for-sale securities	-	-	-	245	-	245	-
Loans and advances							
- performing	31,112	52,481	-	(1,254) ^A	-	82,339	8.0
- non performing	-	-	-	-	-	-	-
Clients' and brokers' balances	-	-	-	140,808	-	140,808	-
Other receivables	-	-	-	11,093	-	11,093	-
Tax recoverable	-	-	-	68	-	68	-
Deferred tax assets	-	-	-	58,192	-	58,192	-
Prepaid lease payments	-	-	-	1,132	-	1,132	-
Property and equipment	-	-	-	4,210	-	4,210	-
Goodwill	-	-	-	28,750	-	28,750	-
Intangible assets	-	-	-	937	-	937	-
Total assets	228,607	52,505	-	285,709	6,101	572,922	

^A Includes specific allowances and general allowances amounting to RM3,775,000 (2008: Nil).

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38 Financial instruments (continued)

(a) Interest rate risk (continued)

Liabilities	The Group 2009				Effective interest rate %
	Non-trading book		Trading book		
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 -12 months RM'000	Non-interest sensitive RM'000	Total RM'000
Deposits and placements of other financial institutions	8,000	344	1,476	-	9,820
Clients' and brokers' balances	-	-	-	252,568	252,568
Payables and other liabilities	-	-	-	36,263	36,263
Total liabilities	8,000	344	1,476	288,831	298,651
Total interest rate sensitivity gap	220,607	52,161	(1,476)		

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38 Financial instruments (continued)

(a) Interest rate risk (continued)

Assets	Non-trading book					Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Non-interest sensitive RM'000			
Cash and short term funds	343,209	45,000	-	-	-	-	658,043	2.5
Deposits and placements with banks	-	-	-	-	-	-	45,000	2.7
Securities held at fair value through profit or loss	-	-	-	-	-	431,411	431,411	3.6
Available-for-sale securities	-	-	-	-	245	-	245	-
Held-to-maturity securities	10,000	-	-	-	-	-	10,000	2.6
Loans and advances	-	-	-	-	-	-	-	-
- performing	72,760	46,962	-	-	(1,796) ^A	-	117,926	5.6
- non performing	-	-	-	-	-	-	-	-
Clients' and brokers' balances	-	-	-	-	80,590	-	80,590	-
Other receivables	-	-	-	-	15,332	-	15,332	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	4,000	-	4,000	-
Tax recoverable	-	-	-	-	131	-	131	-
Investment in subsidiary companies	-	-	-	-	588	-	588	-
Deferred tax assets	-	-	-	-	52,597	-	52,597	-
Prepaid lease payments	-	-	-	-	1,131	-	1,131	-
Property and equipment	-	-	-	-	5,296	-	5,296	-
Goodwill	-	-	-	-	30,236	-	30,236	-
Intangible assets	-	-	-	-	1,229	-	1,229	-
Total assets	425,969	91,962	-	-	504,413	431,411	1,453,755	

^A Includes specific allowances and general allowances amounting to RM4,484,000 (2009: RM3,775,000).

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38 Financial instruments (continued)

(a) Interest rate risk (continued)

Liabilities	Non-trading book					The Bank 2010		Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	
Deposits from customers	31,218	-	-	-	-	-	31,218	2.5
Deposits and placements of other financial institutions	559,790	39,339	1,861	-	-	-	600,990	2.5
Clients' and brokers' balances	-	-	-	-	222,317	-	222,317	-
Payables and other liabilities	-	-	-	-	310,376	-	310,376	-
Total liabilities	591,008	39,339	1,861	-	532,693	-	1,164,901	
Total interest rate sensitivity gap	(165,039)	52,623	(1,861)	-	-	-	-	

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38 Financial instruments (continued)

(a) Interest rate risk (continued)

Assets	The Bank 2009				Effective interest rate %		
	Up to 1 month RM'000	Non-trading book >1 - 3 months RM'000	>3 -12 months RM'000	Non-interest sensitive RM'000		Trading book RM'000	Total RM'000
Cash and short term funds	197,495	-	-	40,656	-	238,151	1.9
Deposits and placements with banks	-	24	-	-	-	24	1.8
Securities held at fair value through profit or loss	-	-	-	-	6,101	6,101	-
Available-for-sale securities	-	-	-	245	-	245	-
Loans and advances	31,112	52,481	-	(1,254) ^A	-	82,339	8.0
- performing	-	-	-	- ^A	-	0	-
- non performing	-	-	-	140,808	-	140,808	-
Clients' and brokers' balances	-	-	-	11,219	-	11,219	-
Other receivables	-	-	-	131	-	131	-
Tax recoverable	-	-	-	588	-	588	-
Investment in subsidiary companies	-	-	-	58,192	-	58,192	-
Deferred tax assets	-	-	-	1,132	-	1,132	-
Prepaid lease payments	-	-	-	4,210	-	4,210	-
Property and equipment	-	-	-	30,000	-	30,000	-
Goodwill	-	-	-	937	-	937	-
Intangible assets	-	-	-	-	-	-	-
Total assets	228,607	52,505	-	286,864	6,101	574,077	

^A Includes specific allowances and general allowances amounting to RM3,775,000 (2008: Nil).

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(a) Interest rate risk (continued)

Liabilities	The Bank 2009				Effective interest rate %
	← Non-trading book	→			
	Up to 1 months RM'000	>1-3 months RM'000	>3-12 months RM'000	Non-interest sensitive RM'000	Total RM'000
Deposits and placements of other financial institutions	8,000	344	1,476	-	9,820
Clients' and brokers' balances	-	-	-	252,434	252,434
Payables and other liabilities	-	-	-	36,332	36,332
Total liabilities	8,000	344	1,476	288,766	298,586
Total interest rate sensitivity gap	220,607	52,161	(1,476)		

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(b) Credit risk

The following table sets out the credit risk concentration of the Group by classes of financial assets:

	The Group 2010							
	Short term funds and placements with financial institutions RM'000	Securities held at fair value through profit or loss RM'000	Held-to- maturity securities RM'000	Loans and advances [#] RM'000	Clients' and brokers' balances [#] RM'000	Other financial assets * RM'000	On-balance sheet total RM'000	Credit related commitments and contingencies RM'000
Agriculture	-	-	-	5,010	-	-	5,010	-
Mining and quarrying	-	-	-	10,012	-	-	10,012	-
Manufacturing	-	-	-	39,739	-	-	39,739	-
Electricity, gas and water	-	14,958	-	-	-	643	15,601	-
Construction	-	-	-	-	-	-	-	-
Real estate	-	-	-	19,496	-	-	19,496	-
General commerce	-	-	-	-	-	-	-	-
Transport, storage and communication	-	15,272	-	-	-	274	15,546	-
Finance, insurance and business services	704,717	85,290	10,000	-	-	5,598	805,605	3,225,000
Government and government agencies	836	308,774	-	-	-	6,070	315,680	-
Purchase of securities	-	-	-	43,960	80,599	-	124,559	267,940
Others	-	-	-	1,505	-	4,846	6,351	-
Total	705,553	424,294	10,000	119,722	80,599	17,431	1,387,599	3,492,940

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

* Other financial assets comprise of other receivables and tax recoverable.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(b) Credit risk

The following table sets out the credit risk concentration of the Group by classes of financial assets:

	The Group 2009					
	Short term funds and placements with financial institutions RM'000	Loans and advances# RM'000	Clients' and brokers' balances# RM'000	Other financial assets* RM'000	On-balance sheet total RM'000	Credit related commitments and contingencies RM'000
Agriculture	-	3,008	-	-	3,008	-
Mining and quarrying	-	10,014	-	-	10,014	-
Construction	-	707	-	-	707	-
Real estate	-	-	-	-	-	-
General commerce	-	366	-	-	366	-
Finance, insurance and business services	239,032	-	-	6,709	245,741	-
Government and government agencies	15	-	-	68	83	-
Purchase of securities	-	67,994	140,858	-	208,852	327,475
Household	-	1,504	-	-	1,504	-
Others	-	-	-	4,152	4,152	-
Total	239,047	83,593	140,858	10,929	474,427	327,475

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

* Other financial assets comprise of other receivables and tax recoverable.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P
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Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(b) Credit risk (continued)

The following table sets out the credit risk concentration of the Bank by classes of financial assets:

	The Bank 2010							
	Short term funds and placements with financial institutions RM'000	Securities held at fair value through profit or loss RM'000	Held-to- maturity securities RM'000	Loans and advances [#] RM'000	Clients' and brokers' balances [#] RM'000	Other financial assets* RM'000	On-balance sheet total RM'000	Credit related commitments and contingencies RM'000
Agriculture	-	-	-	5,010	-	-	5,010	-
Mining and quarrying	-	-	-	10,012	-	-	10,012	-
Manufacturing	-	-	-	39,739	-	-	39,739	-
Electricity, gas and water	-	14,958	-	-	-	643	15,601	-
Construction	-	-	-	-	-	-	-	-
Real estate	-	-	-	19,496	-	-	19,496	-
General commerce	-	-	-	-	-	-	-	-
Transport, storage and communication	-	15,272	-	-	-	274	15,546	-
Finance, insurance and business services	702,207	85,290	10,000	-	-	5,598	803,095	3,225,000
Government and government agencies	836	308,774	-	-	-	6,070	315,680	-
Purchase of securities	-	-	-	43,960	80,599	-	124,559	267,940
Others	-	-	-	1,505	-	6,130	7,635	-
Total	703,043	424,294	10,000	119,722	80,599	18,715	1,356,373	3,492,940

Excludes general allowance for loans and advances of RM1,796,000 and client and brokers' balances of RM69,000.

* Other financial assets comprise of other receivables and tax recoverable.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(b) Credit risk (continued)

The following table sets out the credit risk concentration of the Bank by classes of financial assets:

	The Bank 2009					
	Short term funds and placements with financial institutions RM'000	Loans and advances [#] RM'000	Clients' and brokers' balances [#] RM'000	Other financial assets* RM'000	On-balance sheet total RM'000	Credit related commitments and contingencies RM'000
Agriculture	-	3,008	-	-	3,008	-
Mining and quarrying	-	10,014	-	-	10,014	-
Construction	-	707	-	-	707	-
Real estate	-	-	-	-	-	-
General commerce	-	366	-	-	366	-
Finance, insurance and business services	238,160	-	-	6,709	244,869	-
Government and government agencies	15	-	-	131	146	-
Purchase of securities	-	67,994	140,858	-	208,852	327,475
Household	-	1,504	-	-	1,504	-
Others	-	-	-	4,152	4,152	-
Total	238,175	83,593	140,858	10,992	473,618	327,475

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

* Other financial assets comprise of other receivables and tax recoverable.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(c) Fair value for financial instruments

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

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

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

Short term funds and placements with financial institutions

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

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

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

Loans and advances

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

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 30 June 2010

38 Financial instruments (continued)

(c) Fair value for financial instruments (continued)

Clients' and brokers' balances

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

Other assets and liabilities

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

Deposits 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 banks and other financial institutions

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

Credit related commitment and contingencies

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

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

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

HONG LEONG INVESTMENT BANK BERHAD

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Notes to the financial statements for the financial year ended 30 June 2010

39 Critical accounting estimates and judgements in applying accounting policies

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

(a) Allowance for losses on loans and advances

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

(b) Impairment of goodwill

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

40 Significant events during the financial year

Issuance of bonus shares

On 5 February 2010, the Bank sought BNM's approval to undertake a proposed bonus issue of up to 142,035,171 new ordinary shares of RM1.00 each in HLIB ("Shares") to HLG Capital Berhad ("HLGC"). The Shares were proposed to be issued as fully paid bonus shares out of the share premium reserve of HLIB.

On 22 March 2010, approval was granted by BNM on the issuance of 142,035,171 Shares by capitalising the Bank's share premium reserve.

On 30 March 2010, the Bank issued 142,035,171 Shares to HLGC by capitalising a sum of RM142,035,171.00 being the entire amount standing in the Bank's share premium reserve.

The Shares issued during the year ranked pari passu in all respects with the existing Shares of the Bank.

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P

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Notes to the financial statements for the financial year ended 30 June 2010

41 Subsequent events after the financial year

Proposed integration of the Bank and HLG Futures Sdn Bhd ("HLG Futures")

On 22 April 2010, the Bank had entered into a Business Transfer Agreement with HLG Futures, whereby HLG Futures would transfer all its assets, liabilities, activity, business and the undertaking of the business carried on by HLG Futures as a going concern ("HLG Futures Business") to the Bank ("Proposed Integration") with effect from 31 July 2010 (or such other date as may be agreed by the parties hereto) ("Transfer Date").

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

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

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

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

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

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

42 Approval of financial statements

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

HONG LEONG INVESTMENT BANK BERHAD

Company no: 43526-P


(Incorporated in Malaysia)

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

We, Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Lee Jim Leng, two of the Directors of Hong Leong Investment Bank Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 15 to 91 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 30 June 2010 and of the results of their operations for the year ended on that date; and the cash flows of the Group and the Bank for the year then ended on that date, in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

On behalf of the Board.


Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman


Lee Jim Leng
8 September 2010

Kuala Lumpur

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, Lau Yew Sun, the Officer primarily responsible for the financial management of Hong Leong Investment Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 15 to 91 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

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

Before me,

Tan Seok Kett
Pesuruhjaya Sumpah
Commissioner for Oaths




Lot 350, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

Independent Auditors' Report to the member of Hong Leong Investment Bank Berhad

(Incorporated in Malaysia)
(Company no: 43526-P)

Report on the Financial Statements

We have audited the financial statements of Hong Leong Investment Bank Berhad, which comprise the balance sheets as at 30 June 2010 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 91.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

**Independent Auditors' Report to the member of
Hong Leong Investment Bank Berhad (continued)**

(Incorporated in Malaysia)
(Company no: 43526-P)

Report on the Financial Statements (continued)

Opinion

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

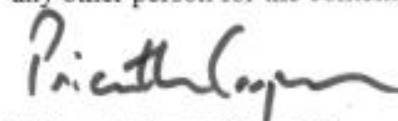
Report on Other Legal and Regulatory Requirements

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


- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

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



PricewaterhouseCoopers
(No. AF: 1146)
Chartered Accountants



Soo Hoo Khoon Yean
(No. 2682/10/11 (J))
Chartered Accountant

Kuala Lumpur
8 September 2010