**HWANG-DBS (MALAYSIA) BERHAD** (238969-K)

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Wisma Sri Pinang
60 Green Hall
10200 Penang
Malaysia.

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HWANG-DBS (MALAYSIA) BERHAD (238969-K) **2008** Annual Report

# Through resilience, WE SCALE NEW HEIGHTS

**2008** Annual Report

**HWANG-DBS (MALAYSIA) BERHAD**
(238969-K)

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## Corporate



## Governance



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# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Sixteenth Annual General Meeting of Hwang-DBS (Malaysia) Berhad will be held at the Bayan Room, Hotel Equatorial, No. 1, Jalan Bukit Jambul, 11900 Penang on Thursday, 27 November 2008 at 10.45 a.m. for the following purposes:-

## AGENDA

**As Ordinary Business**

1. To receive and adopt the audited Financial Statements for the year ended 31 July 2008 and the Reports of the Directors and Auditors thereon. **Resolution 1**

2. To approve the payment of a final dividend of 5 sen per ordinary share less 25% income tax in respect of the year ended 31 July 2008. **Resolution 2**

3. To re-elect Ng Wai Hung, Andrew as Director retiring under Article 83 of the Articles of Association of the Company and who, being eligible, offers himself for re-election. **Resolution 3**

4. To re-appoint the following Directors pursuant to Section 129(6) of the Companies Act, 1965 to hold office until the next Annual General Meeting of the Company:-
   (a) Dato' Seri Hwang Sing Lue **Resolution 4**
   (b) Ong Eng Kooi **Resolution 5**

5. To approve the payment of Directors' fees of RM315,948 in respect of the year ended 31 July 2008. **Resolution 6**

6. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**

**As Special Business**

To consider and, if thought fit, to pass the following Ordinary Resolutions:-

7. Proposed Renewal Of Purchase Of Own Shares **Resolution 8**

   "THAT subject to the provisions of the Companies Act, 1965, the Memorandum and Articles of Association of the Company and all applicable laws, regulations and guidelines and the approvals of all relevant governmental and/or regulatory authorities, the Company be and is hereby authorised to purchase such number of ordinary shares of RM1.00 each in the Company ("Proposed Renewal of Purchase of Own Shares") as may be determined by the Board of Directors of the Company ("Board") from time to time through Bursa Malaysia Securities Berhad ("Bursa Securities") upon such terms and conditions as the Board deems fit and expedient provided that the aggregate number of shares purchased pursuant to this resolution shall not exceed ten per centum (10%) of the Company's issued and paid-up share capital as quoted on Bursa Securities as at the point of purchase and that a total amount not exceeding the latest audited retained profits and share premium reserves of the Company of RM161.26 million and RM33.09 million respectively as at 31 July 2008 be allocated by the Company for the Proposed Renewal of Purchase of Own Shares;

   AND THAT at the discretion of the Board, the shares so purchased may be cancelled, retained as treasury shares or a combination of both and shares retained as treasury shares may be distributed to shareholders as dividends and/or resold on Bursa Securities;

AND THAT authority be given to the Board to take all such steps as are necessary to implement, finalise and give full effect to the aforesaid purchase and to do all such acts and things thereafter in respect of the purchased shares with full powers to assent to any conditions, modifications, variations and/or amendments (if any) as may be imposed by the relevant authorities;

AND THAT such authority shall commence immediately upon the passing of this ordinary resolution until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting after that date is required by law to be held, or until revoked or varied by ordinary resolution of shareholders of the Company in general meeting, whichever is earlier, but not so as to prejudice the completion of purchase(s) of own shares by the Company before the aforesaid expiry date and, in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and any other relevant authorities."

8. Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature **Resolution 9**

"THAT approval be and is hereby given to the Company and its subsidiaries to enter into and give effect to the recurrent related party transactions of a revenue or trading nature with the classes of related parties stated in Section 3.4 of the Circular to Shareholders dated 3 November 2008 provided that such transactions are undertaken in the ordinary course of business of the Company and its subsidiaries, made at arm's length, and are on terms not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders;

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

(a) the conclusion of the next Annual General Meeting of the Company;

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

(c) revoked or varied by resolution passed by the shareholders in a general meeting

whichever is the earlier.

AND THAT the aggregate value of the transactions conducted pursuant to this shareholders' mandate during the financial year be disclosed where necessary in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad in the annual report of the Company.

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such agreements and documents as may be required) as they may consider expedient or necessary to give effect to this resolution."

9. Authority To Issue Shares **Resolution 10**

"THAT pursuant to Section 132D of the Companies Act, 1965, and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company, at such time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed ten per centum (10%) of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

10. To transact any other ordinary business of the Company of which due notice shall have been given. **Resolution 11**

## Notice of Dividend Entitlement

**NOTICE IS HEREBY GIVEN** that a final dividend of 5 sen per ordinary share less 25% income tax in respect of the financial year ended 31 July 2008, if approved, will be paid on 22 December 2008 to depositors registered in the Record of Depositors at the close of business on 5 December 2008.

A depositor shall qualify for entitlement to the dividend only in respect of:-

a. shares transferred into the depositor's securities account before 4.00 p.m. on 5 December 2008 in respect of ordinary transfers; and

b. shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

CHEN MUN PENG
TAN LEE PENG
Company Secretaries

Penang
3 November 2008

Notes:-

1. A member entitled to attend and vote at the meeting is entitled to appoint up to two (2) proxies to attend and vote on his behalf. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(a) and (b) of the Companies Act, 1965 shall not apply to the Company. The Form of Proxy must be deposited at the Company's Registered Office at Level 8, Wisma Sri Pinang, 60 Green Hall, 10200 Penang not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.

2. Explanatory Notes on Special Business:-

   (a) **Resolution 8 – Proposed Renewal Of Purchase Of Own Shares**

   This ordinary resolution, if passed, will empower the Company to purchase up to an aggregate of 10% of the issued and paid-up share capital of the Company at the point of purchase. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

   For further information, please refer to the Circular to Shareholders dated 3 November 2008.

   (b) **Resolution 9 – Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature**

   This ordinary resolution, if passed, will authorise the Company and/or its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

   For further information, please refer to the Circular to Shareholders dated 3 November 2008.

   (c) **Resolution 10 – Authority To Issue Shares**

   This ordinary resolution, if passed, will empower the Directors to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for such purposes as they consider would be in the interest of the Company. The approval is sought to avoid any delay and cost in convening a general meeting for such issuance of shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

# Statement Accompanying Notice of Annual General Meeting

**Directors who are standing for re-election or re-appointment at the Sixteenth Annual General Meeting of the Company**

1. Ng Wai Hung, Andrew is standing for re-election as Director of the Company.
2. Directors who are over the age of 70 years and standing for re-appointment as Directors of the Company are:-
    - Dato' Seri Hwang Sing Lue
    - Ong Eng Kooi

The details of the 3 Directors named above are set out in their respective profiles which appear at the Profile of Directors section of this Annual Report. Details of their interest in the securities of the Company and its subsidiaries are set out in the Analysis of Shareholdings section of this Annual Report.


# Corporate Information

## BOARD OF DIRECTORS

Dato' Seri Hwang Sing Lue

Hwang Lip Teik

Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar

Ang Teik Siew (Ang Teik Lim Eric)

Kankipati Rajan Raju

Ng Wai Hung, Andrew

Ong Eng Kooi

Y.A.M. Tengku Syed Badarudin Jamalullail

### Audit Committee

Y.A.M. Tengku Syed Badarudin Jamalullail
*Chairman /*
*Independent Non-Executive Director*

Ong Eng Kooi
*Independent Non-Executive Director*

Kankipati Rajan Raju
*Non-Independent Non-Executive Director*

### Company Secretaries

Chen Mun Peng

Tan Lee Peng

### Registered Office

Level 8, Wisma Sri Pinang
60 Green Hall, 10200 Penang
Malaysia
Tel : 04-263 6996
Fax : 04-263 9597

### Share Registrar

Agriteum Share Registration
Services Sdn Bhd
2nd Floor, Wisma Penang Garden
42, Jalan Sultan Ahmad Shah
10050 Penang, Malaysia
Tel : 04-228 2321
Fax : 04-227 2391

### Auditors

PricewaterhouseCoopers
Chartered Accountants

### Stock Exchange Listing

Bursa Malaysia Securities Berhad
Main Board


Through Resilience
We Weather Different Terrains

# Chairman's

**Dato' Seri Hwang Sing Lue**
Executive Chairman

# Statement

## Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Annual Report and Audited Financial Statements of the Company and the Group for the financial year ended 31 July 2008.

**MARKET OVERVIEW**

The financial year under review was a period of sharp volatility. The benchmark Kuala Lumpur Composite Index ("KLCI") had a magnificent run during the first part of the period gaining 28% from 1,192 points in mid-August 2007 to hit an all-time high of 1,524 points in January 2008. Since then, the KLCI has corrected 40% from its peak.

The KLCI started the financial year at 1,367 points and thereafter trended lower in line with weak sentiment for global equities. During this period, investors were concerned about rising defaults among US subprime mortgages. Sentiment gradually improved as central banks from the US to Europe and Japan took measures to counter the subprime concerns.

The KLCI rode on this wave of improved sentiment. From a low of 1,192 in mid-August 2007, the KLCI gained 28% to hit an all-time high of 1,524 on 14 January 2008. A surge in crude oil and robust crude palm oil ("CPO") prices helped fuel that run. Not long after, the US housing issues escalated, resulting in profit-taking across regional bourses. The downturn gathered momentum after the country's 12th general election on 8 March 2008. Barisan Nasional, the country's ruling coalition, retained control over the Federal Government by securing 63% of parliamentary seats. This was below the two thirds majority level and lower than the landslide victory in 2004. Post-election, the stockmarket suffered its worst one-day performance since the Asian financial crisis with the KLCI plunging 123 points (9.5%) on 10 March.

With the sharp increase in crude oil price, cost pressures mounted. On 4 June 2008, the Government revised the fuel subsidy structure where pump prices of petrol and diesel were raised. Electricity rates in Peninsular Malaysia saw an average increase of 24% starting 1 July 2008 following higher gas costs. The KLCI dropped 21 points to 1,154 points the following day. The measures sparked concerns of heightened inflation. In July 2008, inflation hit a 26-year high of 8.5%. Sentiment was also adversely affected by perceived political uncertainty.

During the financial period under review, the KLCI dropped 15% to 1,163 points while trading values on Bursa Malaysia Securities Berhad declined to RM422.93 billion compared to RM506.24 billion in the preceding financial year.




## STOCKBROKING AND INVESTMENT BANKING

On the back of an uneven market performance during the year under review, HwangDBS Investment Bank Berhad ("HDBSIB") recorded a lower but satisfactory set of results with pre-tax profit of RM40.35 million (2007 : RM104.54 million). The reduction in pre-tax profit was mainly due to the overall bearish stockmarket sentiments since 10 March 2008 which led to lower brokerage income from its stockbroking activities and the marked to market losses in securities and derivatives positions held by HDBSIB. Operating revenue increased to RM259.77 million compared to RM226.63 million a year ago.

As part of our continuous effort to establish ourselves as a premier financial institution in the country, I am pleased to report that, during the financial year under review, our investment banking ("IB") activities had gathered significant momentum and our service platforms are now ready to offer a comprehensive range of financial products and services ranging from wholesale deposit taking, lending, treasury, corporate advisory and both debt and equity capital markets activities.

As a reflection of our strides in these areas, the IB division completed private debt securities issues amounting to RM3.6 billion. Notably, we successfully securitized 2 major retail malls and completed a major refinancing exercise for an oil and gas company. Our Treasury & Markets department had also been gradually expanding its trading activities and sale of treasury products.

Going forward, we expect the Malaysian investment banking arena to be extremely challenging. The recent collapse of several large financial institutions in US and the possibility of more bankruptcies in the horizon will usher in a painful period of asset value deflation and credit tightening.

Nevertheless, we will continue to seize market opportunities via delivery of innovative financial solutions and value propositions to our clients. To achieve this, we will continuously develop, customize and strengthen our products and distribution capabilities to cater for the challenging market environment.

## UNIT TRUST AND FUND MANAGEMENT

I am pleased to report that HwangDBS Investment Management Berhad ("HDBSIM"), our unit trust and fund management subsidiary, performed strongly during the financial year despite growing global uncertainties. Against the soft global backdrop, retail demand for unit trust funds slowed during the period under review. However, cash management solutions for corporate sector continue to gather pace with significant growth of new clients. We have also experienced good growth in the institutional market where new mandates were secured for local fixed-income.

HDBSIM's assets under management stood at RM5.9 billion as at 31 July 2008, a slight decline from RM6.2 billion in the previous year. Profit before tax however, grew by 37% to RM13.4 million compared to RM9.8 million in the previous year. The improved performance was due to additional fees collected for fund performance and also controlled operating cost.

During the financial year under review, HDBSIM successfully introduced 3 new funds to complement the existing line-up of funds, bringing it to a total of 27 funds. The 1st fund launched in 2008 was the HwangDBS Asia Aspire Capital Protected Fund in March 2008 and raised close to RM90 million amidst a highly challenging market environment. Next, we launched 2 funds simultaneously in July 2008, namely the HwangDBS Global Financial Institutions Fund and the HwangDBS Global Financials Capital Protected Fund raising a combined sum of over RM100 million.

HDBSIM has done well to become one of the major players in the industry. It's key success factors remain as Customer Focus, Product Innovation and Consistent Fund Performances – brought about through the nurturing of a team that has passion, integrity and constantly striving for excellence.

## DERIVATIVES

Another subsidiary, HDM Futures Sdn Bhd ("HDMF") also performed satisfactorily during the financial year and recorded a 33% increase in profit before tax of RM2.22 million, compared to a profit before tax of RM1.67 million in the previous financial year. The increase was attributable to increase in revenue for both its active products, KLCI futures ("FKLI") and CPO futures ("FCPO") contracts.

The overall derivatives market volume for FKLI contracts increased from 2.57 million contracts in financial year 2007 to 3.12 million contracts in the year under review. FKLI monthly volume registered a new high at 386,051 contracts recorded in August 2007.

The overall derivatives market volume for FCPO contracts on the other hand registered a decrease from 3.04 million contracts in financial year 2007 to 2.74 million contracts in financial year 2008. However, FCPO traded from RM2,626 per tonne at the start of the financial year 2008 to a peak of RM4,486 per tonne in March 2008 before closing at RM3,050 at the end of financial year 2008.

As part of our continuous effort to establish ourselves as a premier financial institution in the country, our investment banking activities had gathered significant momentum and our service platforms are now ready to offer a comprehensive range of financial products and services.


## FINANCIAL PERFORMANCE

The Group's operating revenue decreased by 2.84% to RM348.59 million for the financial year under review compared to RM358.79 million in the previous corresponding year. The decrease in operating revenue was mainly attributed to the lower brokerage income generated by the stockbroking division and reduction in initial service charge from sales of unit trusts. The reduction, is however, offset by higher net interest income and fee based income generated by the treasury and capital markets teams of the IB division, higher management and incentive fees earned on funds managed by HDBSIM as well as higher interest earned from the Group's consumer financing activities.

HDBSIB remains the key revenue contributor accounting for 75% (2007: 63%) of the Group's operating revenue, followed by HDBSIM at 17% (2007: 32%). Revenue contributions from other subsidiaries accounted for the remaining 8% (2007:5%).

The Group's pretax profit for the financial year under review decreased by 50.26% to RM55.56 million compared to RM111.71 million in the previous financial year. The lower profitability is mainly due to reduction in the stockbroking brokerage income which moved in tandem with the quiet equity market especially in the 2nd half of the financial year. The lower Group pretax profit was also attributed to the reduction in initial service charge from unit trust management and higher net unrealised marked to market losses on securities and derivatives incurred by the IB division of HDBSIB. The reduction is however offset by increase in fees and net interest income generated by investment banking, asset management and consumer financing activities of the Group.

The Group registered a lower profit after tax of RM40.84 million compared to RM80.81 million in the preceding financial year. As at the end of the financial year, total assets of the Group grew to RM3.73 billion with shareholders' funds of RM746.33 million. Net assets per share of the Group increased from RM2.90 per share to RM2.92 per share. Earnings per share declined from 30.54 sen to 14.23 sen per share with a return on equity of 5.47% (2007: 10.95%).

## DIVIDEND

The Company had declared and paid an interim dividend of 5 sen less tax at 26% on 15 May 2008. The Board is pleased to recommend a final dividend of 5 sen less tax at 25% for approval by shareholders at the forthcoming Annual General Meeting, thus bringing the total dividend payable to 10 sen (2007 : 10 sen).

## PROSPECTS AND OUTLOOK

The Group expects the outlook for the Malaysian economy and domestic capital market to remain subdued for the current financial year in anticipation of continued inflationary pressures, lower consumer spending and worries of slowing economies. At the same time, the global capital market conditions will continue to remain volatile. These sentiments have adversely affected the performance of the equity and capital markets.

Against such a backdrop and with expected thin trading volume in the stockmarket coupled with increased competitiveness in the stockbroking industry, the current financial year will be a challenging year for the stockbroking activities of the Group. The softer economic outlook and market uncertainties due to the current global financial crisis are also likely to result in delays in the pipeline of mandates for IB activities, with new issuance of private debt securities likely to be affected by the volatile ringgit swap rates.

On the other hand, the consumer financing and asset management business of the Group are expanding as planned and these activities are expected to contribute positively to the Group's profitability.

The Board of Directors remains confident that the Group is well positioned to meet the challenges ahead.

## A NOTE OF APPRECIATION

The Board is deeply saddened by the demise of Tan Sri Dato' Ahmad Sabki Jahidin on 15 September 2008. The late Tan Sri Dato' Ahmad Sabki Jahidin served as an Independent Director of the Company since 1996 and had contributed significantly to the development and growth of the Group. His counsel and friendship will be missed.

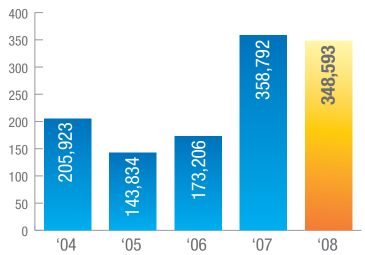
The Group's continued profitability and satisfactory performance during the year under review was made possible with the support and commitment from our valued clients, shareholders, employees and dealers. On behalf of the Board of Directors, I would like to take this opportunity to express my sincere thanks and appreciation to them.

I would also like to thank all regulatory authorities for their wise counsel and assistance throughout the financial year under review.

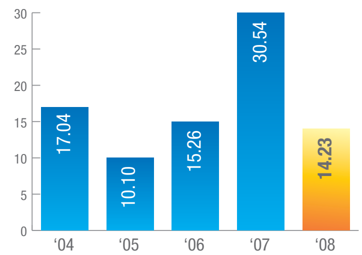
**Dato' Seri Hwang Sing Lue**
Executive Chairman

# Group 5-Year Financial Highlights

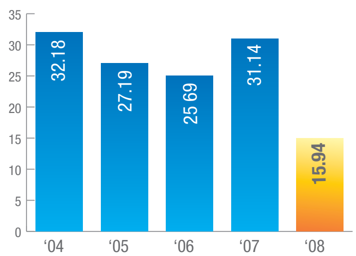
## Financial Year Ended 31 July



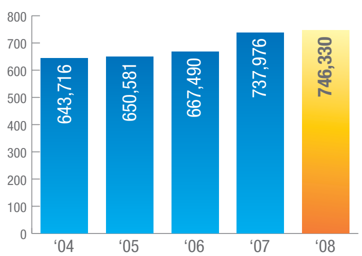

Operating Revenue (RM'000)



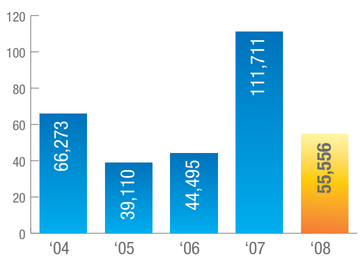

Earnings Per Share (sen)



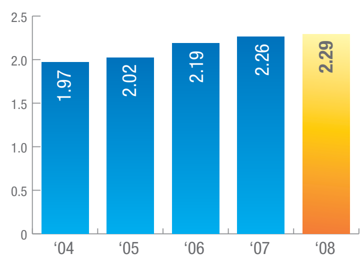

Profit Before Tax Margin (%)




Shareholders' Funds (RM'000)




Profit Before Tax (RM'000)




Net Tangible Assets Per Share (RM)


## Results

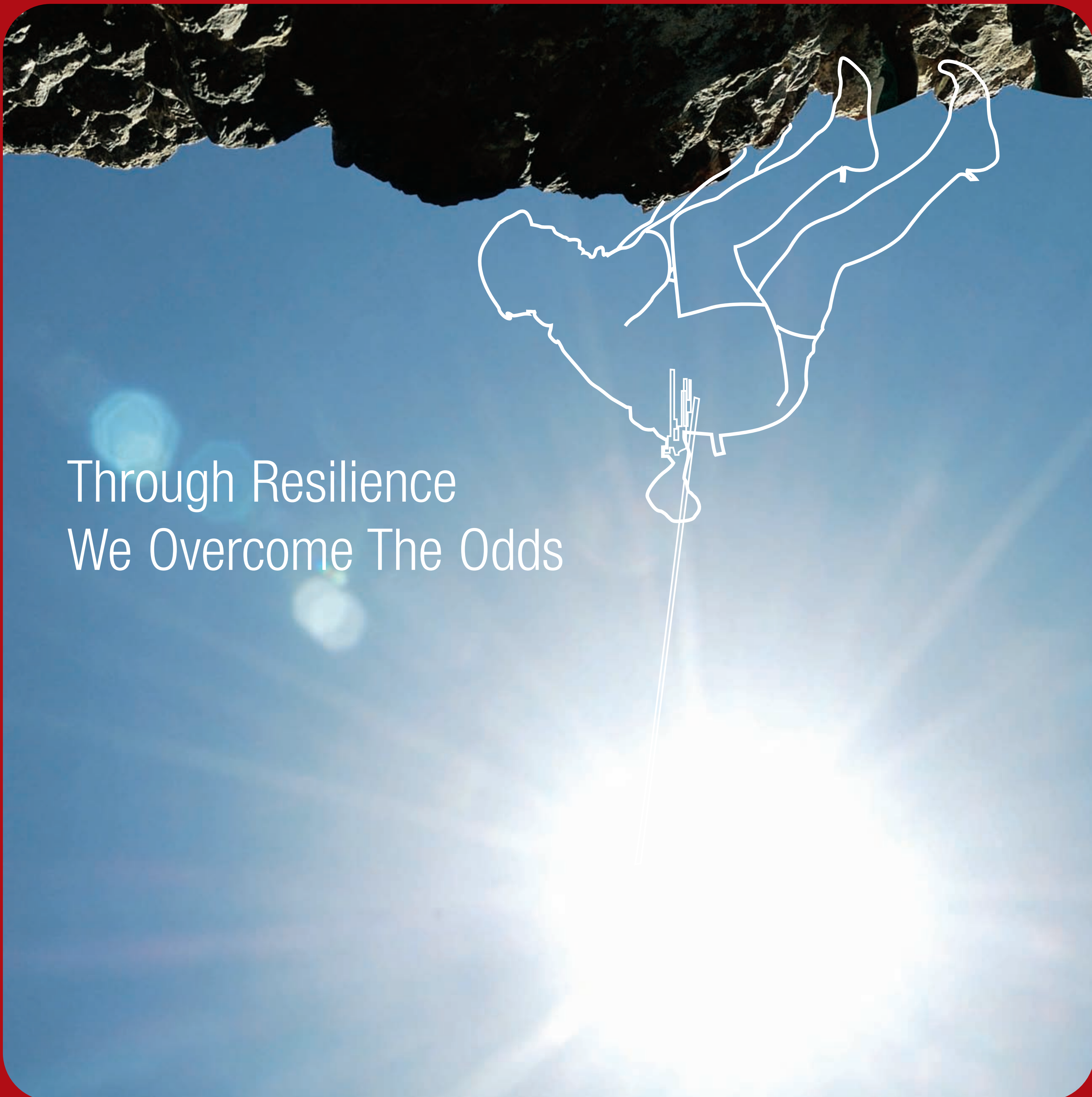
| | Operating Revenue (RM'000) | Profit Before Tax (RM'000) | Profit After Tax (RM'000) |
|---|---|---|---|
| '04 | 205,923 | 66,273 | 46,718 |
| '05 | 143,834 | 39,110 | 27,499 |
| '06 | 173,206 | 44,495 | 41,059 |
| '07 | 358,792 | 111,711 | 80,813 |
| **'08** | **348,593** | **55,556** | **40,838** |

## Capital Employed

| | Paid-up Capital (RM'000) | Shareholders' Funds (RM'000) | Assets Employed (RM'000) |
|---|---|---|---|
| '04 | 264,034 | 643,716 | 1,101,003 |
| '05 | 264,034 | 650,581 | 1,204,737 |
| '06 | 264,165 | 667,490 | 1,197,465 |
| '07 | 265,559 | 737,976 | 2,036,892 |
| **'08** | **265,845** | **746,330** | **3,729,755** |

## Financial Ratios

| | Earnings Per Share (Sen) | Net Tangible Assets Per Share (RM) | Gross Dividends Per Share (Sen) | Profit Before Tax Margin (%) | Return on Shareholders' Funds (%) |
|---|---|---|---|---|---|
| '04 | 17.04 | 1.97 | 7.5 | 32.18 | 7.26 |
| '05 | 10.10 | 2.02 | 7.5 | 27.19 | 4.23 |
| '06 | 15.26 | 2.19 | 7.5 | 25.69 | 6.15 |
| '07 | 30.54 | 2.26 | 10.0 | 31.14 | 10.95 |
| **'08** | **14.23** | **2.29** | **10.0** | **15.94** | **5.47** |


Through Resilience
We Overcome The Odds

# Profile of Directors



**Dato' Seri Hwang Sing Lue**

**Dato' Seri Hwang Sing Lue,** aged 79, a Malaysian, was appointed to the Board of the Company on 28 April 1992. He is the Non-Independent Executive Chairman of the Company. He is also a member of the Executive Committee and Remuneration Committee of the Company.

Dato' Seri Hwang has over 35 years of experience in the securities industry and is a Non-Independent Non-Executive Director of HwangDBS Investment Bank Berhad.

Dato' Seri Hwang is also actively involved in the rubber industry, holding the positions of a member of the Management Committee of the Malaysian Rubber Board ("MRB"), an Arbitrator of the Panel of Malaysian Rubber Exchange of Arbitrators, a member of the Disciplinary Appeal Committee and Certification Panel of MRB and President of the Federation of Rubber Trade Associations of Malaysia.

He is a deemed major shareholder of the Company and the father of Mr. Hwang Lip Teik and Mr. Hwang Lip Koon, both of whom are also deemed major shareholders of the Company. He has no conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

Dato' Seri Hwang attended all 8 Board Meetings of the Company held during the financial year.

**Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar**

**Ang Teik Siew (Ang Teik Lim Eric)**

**Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar**, aged 49, a Malaysian, is a Non-Independent Non-Executive Director of the Company. He was appointed to the Board on 1 December 1992. Tunku is a member of the Executive Committee of the Company.

Tunku graduated from Middlesex University, United Kingdom with a Bachelor of Science (Honours) in Mathematics. He started his career as a Management Science Consultant with British Telecom in 1982 before joining Esso Production Malaysia Inc as a System Analyst. Tunku has also previously served as the General Manager of Asia-Pacific Videolab Sdn Bhd and as Executive Director of Antah Holdings Berhad. Tunku currently sits on the Board of Kian Joo Can Factory Berhad, Box-Pak (Malaysia) Berhad, Nova MSC Berhad, Khyra Legacy Berhad, HwangDBS Investment Bank Berhad, HwangDBS Investment Management Berhad and Universal Trustee (Malaysia) Berhad.

Tunku does not have any conflict of interest with the Company and has not been convicted of any offences within the past 10 years. He also does not have any family relationship with any other directors or major shareholders of the Company.

Tunku attended all 8 Board Meetings of the Company held during the financial year.

**Ang Teik Siew (Ang Teik Lim Eric),** aged 55, a national of Singapore, was appointed to the Board of the Company on 2 April 2001 as a Non-Independent Non-Executive Director. He is nominated to the Board by DBS Vickers Securities (Malaysia) Pte Ltd and DBS Bank Ltd, a major shareholder and deemed major shareholder respectively of the Company. He serves as a member of the Executive Committee, Nomination Committee and Remuneration Committee of the Company. He also sits on the Board of HwangDBS Investment Bank Berhad.

Mr. Ang graduated with a Bachelor of Business Administration (Honours) from the University of Singapore in 1976. His career in the banking industry commenced in 1978 when he joined DBS Bank Ltd as a Corporate Banking Officer. Since then, he has held various other positions in the bank and is currently the Managing Director & Joint Head of Global Financial Markets of the bank.

Mr. Ang has not been convicted of any offences in the past 10 years and does not have any conflict of interest with the Company. He also does not have any family relationship with any other directors or major shareholders of the Company.

Mr. Ang attended 6 out of the 8 Board Meetings of the Company held during the financial year.

**Hwang Lip Teik,** aged 51, a Malaysian, was appointed to the Board as a Non-Independent Executive Director on 1 December 1992 and thereafter as Managing Director of the Company in December 2005. He was redesignated to a Non-Independent Non-Executive Director of the Company on 31 January 2007. He is a member of the Nomination Committee and Option Committee of the Company.

Mr. Hwang joined HwangDBS Investment Bank Berhad in 1983 as Senior Manager (Trading) in charge of the trading activities of the company and was appointed as an executive director in January 1996. He currently serves as the Managing Director/Chief Executive Officer of HwangDBS Investment Bank and is responsible for the overall operations and strategic activities of HwangDBS Investment Bank. He is also a director of HwangDBS Investment Management Berhad.

Mr. Hwang is a deemed major shareholder of the Company. He is also the son of Dato' Seri Hwang Sing Lue and brother of Hwang Lip Koon (both deemed major shareholders of the Company). He has no conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

Mr. Hwang attended all 8 Board Meetings of the Company held during the financial year.

**Hwang Lip Teik**

**Y.A.M. Tengku Syed Badarudin Jamalullail**

**Y.A.M. Tengku Syed Badarudin Jamalullail,** aged 63, a Malaysian, was appointed as an Independent Non-Executive Director of the Company on 28 February 2003. Tengku is the Chairman of the Nomination Committee and Audit Committee of the Company.

Tengku graduated from Cambridge University in 1968 with a Master of Arts degree in Law and History. From 1968-1978, he was employed and held various executive positions in Fraser & Neave (Malaya) Sdn Bhd. Currently, Tengku is involved in his family businesses and is also the Independent Non-Executive Chairman of Fraser & Neave Holdings Berhad and several of its subsidiaries. He is also the Independent Non-Executive Chairman of HwangDBS Investment Bank Berhad and a director of HwangDBS Investment Management Berhad.

Tengku does not have any family relationship with any other directors or major shareholders of the Company, has no conflict of interest with the Company and has also not been convicted of any offences within the past 10 years.

Tengku attended all 8 Board Meetings of the Company held during the financial year.

Ong Eng Kooi

**Ong Eng Kooi,** aged 73, a Malaysian, was appointed to the Board of the Company on 1 March 1996. He is an Independent Non-Executive Director of the Company. Besides being the Chairman of the Remuneration Committee and Option Committee of the Company, he is also a member of the Audit Committee and Nomination Committee of the Company. Mr. Ong also sits on the Board of HwangDBS Investment Bank Berhad and HwangDBS Investment Management Berhad.

Mr. Ong is a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and a Fellow of The Institute of Chartered Accountants in England and Wales. He served the Federal Government as a Treasury Accountant from 1961 to 1966, during which period he acted at various times as Chief Accountant of the Ministry of Education, as Senior Treasury Accountant and as Accountant General of Malaysia. In 1967, he joined Cooper Brothers & Co., Malaysia (now known as PricewaterhouseCoopers, Malaysia) before his retirement as a partner in 1990. After his retirement, he served as a consultant to the firm until 1992.

Mr. Ong does not have any family relationship with any other directors or major shareholders of the Company, has no conflict of interest with the Company and has not been convicted of any offences within the past 10 years.

Mr. Ong attended all 8 Board Meetings of the Company held during the financial year.

Kankipati Rajan Raju

**Kankipati Rajan Raju,** aged 43, a national of India, was appointed to the Board of the Company on 20 July 2006 as a Non-Independent Non-Executive Director. He is nominated to the Board by DBS Vickers Securities (Malaysia) Pte Ltd and DBS Bank Ltd, a major shareholder and deemed major shareholder respectively of the Company. He serves as a member of the Audit Committee of the Company. He also sits on the Board of HwangDBS Investment Bank Berhad.

Mr. Raju graduated with a Bachelor Degree in Economics from Bombay University in 1986 and did his post graduate studies in Business Administration at The Indian Institute of Management, Ahmedabad. He joined DBS Bank as Managing Director & Chief Administration Officer in the Treasury & Markets Business in September 1999 and moved on to become the Head of Processing and Servicing in September 2000. He was appointed the Head of South and Southeast Asia in August 2003 and took on additional responsibilities as Head of Global Transaction Services in September 2004 and Head of Technology and Operations in May 2006. Mr. Raju is now the Managing Director and Head of Consumer Banking Group of DBS Bank. Prior to joining DBS Bank, Mr. Raju was with Citibank.

Mr. Raju has not been convicted of any offences in the past 10 years and does not have any conflict of interest with the Company. He also does not have any family relationship with any other directors or major shareholders of the Company.

Mr. Raju attended all 8 Board Meetings of the Company held during the financial year.

**Ng Wai Hung, Andrew,** aged 46, a national of Singapore, was appointed to the Board of the Company on 16 July 2008 as a Non-Independent Non-Executive Director. He is nominated to the Board by DBS Vickers Securities (Malaysia) Pte Ltd and DBS Bank Ltd, a major shareholder and deemed major shareholder respectively of the Company. He also sits on the Board of HwangDBS Investment Bank Berhad.

Mr. Ng graduated with a Bachelor of Social Science (Honours) from the University of Hong Kong in 1984. He started his career with Chase Manhattan Bank, Singapore in 1986 as Vice-President and had served as the Head of North Asia as well as Trading and Treasurer of Chase Manhattan Bank, Taipei. From Chase Manhattan Bank, he moved to the Canadian Imperial Bank of Commerce, Singapore in 1995 as Executive Director and Head of Asian swap desk before joining DBS Bank in January 2000. Mr. Ng is currently the Managing Director & Head of Treasury & Markets of DBS Bank.

Mr. Ng has not been convicted of any offences in the past 10 years and does not have any conflict of interest with the Company. He also does not have any family relationship with any other directors or major shareholders of the Company.

No Board Meeting was held during the financial year since Mr. Ng's appointment to the Board.

**Ng Wai Hung, Andrew**

# Group Corporate Structure

**HWANG-DBS (MALAYSIA) BERHAD**
(238969-K)

- **100%** **HDM Properties Sdn Bhd** (240350-W)
  Letting of properties and investment holding
- **100%** **HDM Research & Publication Sdn Bhd** (331956-X)
  Dormant
- **100%** **HDM Capital Sdn Bhd** (365940-A)
  Moneylending and investment in listed and unlisted companies
- **100%** **HDM Capital Management Sdn Bhd** (686085-P)
  (formerly known as DBS HDM Capital Management Sdn Bhd)
  Provision of fund management, investment advisory and related consultancy services
- **100%** **HwangDBS Investment Bank Berhad** (14389-U)
  Investment banking, stockbroking & related financial services
  - **100%** **HDM Nominees (Tempatan) Sdn Bhd** (41117-T)
    Provision of nominee services to local clients
  - **100%** **HDM Nominees (Asing) Sdn Bhd** (278474-A)
    Provision of nominee services to foreign clients
  - **100%** **HwangDBS Custodian Services Sdn Bhd** (372312-H)
    Dormant
    - **100%** **HwangDBS Custodian Nominees (Tempatan) Sdn Bhd** (372313-T)
      Dormant
    - **100%** **HwangDBS Custodian Nominees (Asing) Sdn Bhd** (372309-H)
      Dormant
  - **51%** **HwangDBS Vickers Research Sdn Bhd** (128540-U)
    Provision of research and stock analysis
- **100%** **HDM Futures Sdn Bhd** (258146-M)
  Licensed futures broker dealing in options and futures
- **100%** **HDM Management Services Sdn Bhd** (177494-U)
  Dormant
- **100%** **Asian Islamic Investment Management Sdn Bhd** (256674-T)
  (formerly known as HwangDBS Resources Sdn Bhd)
  Dormant
- **100%** **HDM Private Equity Sdn Bhd** (686081-U)
  (formerly known as DBS HDM Capital Sdn Bhd)
  Investment holding
- **53%** **HwangDBS Investment Management Berhad** (429786-T)
  Management of unit trust funds and corporate funds

# Corporate Governance Statement

The Board of Directors ("the Board") is committed to the principles of corporate governance as embodied in the Malaysian Code on Corporate Governance ("the Code"). Towards this end, the Board takes every step to ensure that the principles of corporate governance and best practices are observed and practised throughout the Group.

The Board is pleased to provide the following statement, which outlines the corporate governance practices that were in place throughout the financial year. Any area where the Company has not complied with the Code is indicated herein.

## 1. THE BOARD

### (a) Composition and Board Balance

The Company is led and managed by an experienced Board comprising members with a wide range of business, banking and audit background. As at 31 July 2008, the Board comprised an Executive Chairman and 8 Non-Executive Directors, 3 of whom were independent. However, Tan Sri Dato' Ahmad Sabki Jahidin, who was 1 of our Independent Directors passed away on 15 September 2008. The Board is actively evaluating potential candidates for appointment to the Board to fill the vacancy created by Tan Sri Dato' Ahmad Sabki Jahidin's demise. The profiles of the current Directors are set out in pages 17 to 23 of this Annual Report.

The composition of the Board reflects the Board's commitment to maintain an appropriate balance to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Group.

The functions of Executive and Non-Executive Directors are separate and distinct. The Executive Chairman is responsible for making and implementing operational decisions. The Non-Executive Directors support the skills and experience of the Executive Chairman and contribute to the formulation of strategies and policies based on their knowledge and experience. The large number of Non-Executive Directors on the Board who bring strong independent judgement and objective participation in the proceedings and decision-making process of the Board provides an effective check and balance for the Executive Chairman.

### (b) Board's Responsibilities

The Board oversees the overall corporate governance and performance of the Group. The responsibilities of the Board include:-

- overseeing the conduct of the Group's businesses;
- reviewing and adopting strategic business plans for key subsidiaries of the Group;
- identifying principal risks and ensure the implementation of appropriate systems to manage these risks;
- succession planning, including appointing, training and fixing the compensation of directors and key senior management; and
- reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

### (c) Directors' Training

The Board acknowledges the importance of continuous education and training to enable effective discharge of its duties and encourages Directors to attend talks, training programmes and seminars to update themselves on new developments in the business environment. The Board has and will continue to evaluate and determine the training needs of its Directors to ensure that Directors are kept abreast with business and regulatory changes. Mr. Ng Wai Hung, Andrew who joined the Board on 16 July 2008 will attend the Mandatory Accreditation Training Programme within the timeframe permitted by Bursa Malaysia Securities Berhad ("Bursa Securities").

During the financial year ended 31 July 2008, all Directors (except Mr. Ng Wai Hung, Andrew) attended half-day training courses entitled "Managing Interest Rate Risk Using Derivatives" and "Managing Business Risk In A Global Environment" held on 23 October 2007 and 19 March 2008 respectively. Majority of the Directors also attended a half-day training course entitled "Roles & Responsibilities of ALCO" held on 25 June 2008. Other training programmes attended by some Directors during the financial year were:-

**(c) Directors' Training (cont'd)**

- Invest Vietnam: Future Challenges & Outlook
- Economics And Capital Markets I: Forces Shaping Global Capital Markets
- Essentials Of Fundamental Analytics I: Analysing Company Performance
- Invest Vietnam Masterclass 2008
- Regulation After Subprime Crisis
- Developing KPI To Enhance Organisation Performance
- Anti-Money Laundering And Anti-Terrorism Financing Act 2001
- Recent Developments In Malaysian Financial Reporting Standards
- Directors' Continuing Education Programme – Malaysian Boardroom Challenges: Impact And Implications Of The Malaysian Companies (Amendment) Act 2007

Visits by the Directors to the Group's businesses and meetings with senior management are arranged for enhancement of their knowledge particularly in respect of the operations of the Group.

**(d) Retirement and Re-election of Directors**

In accordance with the Company's Memorandum and Articles of Association, Directors shall retire from office at least once in every 3 years and offer themselves for re-election. Directors who are appointed by the Board are subject to election by the shareholders at the next Annual General Meeting following their appointments. Directors over 70 years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

**(e) Board Meetings and Supply of Information**

The Board met for a total of 8 times during the financial year ended 31 July 2008. All Directors fulfilled the requirement of Bursa Securities in relation to their attendance at Board Meetings. Details of Directors' attendance at Board Meetings are outlined in the Profile of Directors section of this Annual Report.

Directors are provided with Notices of the Board Meetings and board papers for each agenda item in advance of each Board Meeting to ensure that Directors have sufficient time to study them and be prepared for discussion. Any additional information requested by Directors is readily available. The Board also has a formal schedule of matters reserved to it for deliberation and decision. Minutes of Meetings are maintained.

The Group has a policy on information to be brought to the Board's attention. In accordance to the policy, all material information are to be tabled to the Board on a timely basis in order for the Board to be kept abreast with the performance and all business activities of the Group.

Directors have access to the advice and services of the Company Secretaries who are responsible for ensuring that Board procedures are followed and all necessary information are obtained from Directors both for the Company's own records and for purposes of meeting statutory obligations. Where necessary, Directors also have access to independent professional advice at the Company's expense in furtherance of their duties.

**(f) Directors' Remuneration**

All Directors are provided with directors' fees. The directors' fees are approved by the shareholders at the Annual General Meeting. The compensation of the Executive Chairman is dependent on the performance of the Group and that of the Executive Chairman during the financial year. In addition, the Group also reimburses reasonable expenses incurred by Directors in the course of carrying out their duties as Directors.

The details of the remuneration of the Directors on Group basis for the financial year ended 31 July 2008 are as follows:-

| **All figures in RM** | **Executive Director** | **Non-Executive Directors #** |
|---|---|---|
| Salary | 1,430,400 | 1,056,000 |
| Fee & Meeting Allowance | 72,000 | 813,396 |
| Other Emoluments * | 2,114,899 | 2,031,904 |
| **Total** | **3,617,299** | **3,901,300** |

**(f) Directors' Remuneration (cont'd)**

The number of Directors whose remuneration falls into the following bands is as shown below:-

| | Executive Director | Non-Executive Directors@ |
|---|---|---|
| RM1 – RM50,000 | – | 1** |
| RM50,001 – RM100,000 | – | 3 |
| RM100,001 – RM150,000 | – | 2 |
| RM150,001 – RM200,000 | – | 1 |
| RM200,001 – RM250,000 | – | 1 |
| RM3,000,001 – RM3,050,000 | – | 1 |
| RM3,600,001 – RM3,650,000 | 1 | – |
| **Total** | **1** | **9** |

*# 2 Non-Executive Directors of the Company also served as Executive Directors of principal subsidiaries of the Company.*

** Other emoluments comprise bonuses, commission, EPF and SOCSO contributions.*

*@ This includes a Director who resigned during the financial year, a Director who was appointed during the financial year and a Director who passed away on 15 September 2008.*

*** This Director was appointed to the Board on 16 July 2008.*

The Code recommends disclosure of details of the remuneration of each Director. However, the Board is of the view that the disclosure of the remuneration of the Directors by bands of RM50,000 is sufficient to meet the objective of the Code.

## 2. THE BOARD'S COMMITTEES

The Board has set up various Committees to assist the Board in the management of the Group's businesses and discharge of its duties. The functions and terms of reference of the Committees as well as authority delegated by the Board to these Committees have been clearly defined by the Board.

The Committees set up by the Board are:-

| Committee | Chaired by |
|---|---|
| (a) Executive Committee | Executive Chairman |
| (b) Audit Committee | Independent Non-Executive Director |
| (c) Nomination Committee | Independent Non-Executive Director |
| (d) Remuneration Committee | Independent Non-Executive Director |
| (e) Option Committee | Independent Non-Executive Director |

**(a) Executive Committee**

The Executive Committee is made up of the Executive Chairman and 2 Non-Independent Non-Executive Directors and it meets as and when necessary.

The Executive Committee evaluates the Group's strategic plans and recommends to the Board new business ventures, expansion and diversification opportunities. It generally assists the Board in overseeing the business affairs of the Group.

**(b) Audit Committee**

The terms of reference of the Audit Committee, composition of its membership and other pertinent information about the Audit Committee and its activities are highlighted in the Audit Committee Report set out in pages 32 to 35 of this Annual Report.

**(c) Nomination Committee**

As at 31 July 2008, the Nomination Committee was made up of 3 Independent Non-Executive Directors and 2 Non-Independent Non-Executive Directors. Its membership was reduced to 2 Independent Non-Executive Directors and 2 Non-Independent Non-Executive Directors upon the demise of the late Tan Sri Dato' Ahmad Sabki Jahidin. To ensure compliance with the Code which recommends that a majority of members of the Committee should be independent, the Board will review the composition of the Committee in tandem with the appointment of a new Independent Non-Executive Director to fill the vacancy created by the late Tan Sri Dato' Ahmad Sabki Jahidin's demise.

The Nomination Committee meets as and when required but the full Committee shall meet at least once a year. The objective of the Committee is to provide a formal and transparent procedure for the appointment of Directors, Board committees members, the Chief Executive Officer (if any) and key senior management officers of the Group as well as assessing the effectiveness of such individual Directors, the Board as a whole, the Chief Executive Officer and key senior management officers. The Committee is authorized by the Board to:-

- review the composition and size of the respective Boards and determine the appropriate Board balance;
- review and recommend to the respective Boards the required mix of skills, experience, qualification and other core competencies required of a Director and Chief Executive Officer;
- recommend to the respective Boards the removal of a Director, Chief Executive Officer or key senior management officers if they are ineffective, errant and negligent in discharging their respective responsibilities;
- establish a mechanism for the formal annual assessment, on the effectiveness of the Board as a whole, the contribution of each Director, the contribution of the Board's various committees and the performance of the Chief Executive Officer and other key senior management officers;
- ensure that all Directors receive appropriate continuous training;
- oversee the appointment, management succession planning and performance evaluation of key senior management officers; and
- assess to ensure that the Directors, Chief Executive Officer and key senior management officers of an investment banking subsidiary are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.

The Nomination Committee conducted a review of the required mix of skills and experience of the respective Boards of the Group during the financial year and was satisfied with the mix of skills and experience of the Directors. The assessments and evaluations carried out by the Nomination Committee are properly documented.

**(d) Remuneration Committee**

As at 31 July 2008, the Remuneration Committee comprised 2 Independent Non-Executive Directors, a Non-Independent Non-Executive Director and the Executive Chairman. Its membership was reduced to 3 with the demise of the late Tan Sri Dato' Ahmad Sabki Jahidin who was an Independent Non-Executive Director. It meets as and when required but the full Committee shall meet not less than once a year.

The Remuneration Committee's objective is to provide a formal and transparent procedure for developing remuneration policy for Directors, Chief Executive Officer (if any) and key senior management officers of the Company and its principal subsidiaries and ensure that compensation is competitive and consistent with the Group's culture, objectives and strategy. The Remuneration Committee is authorised by the Board to:-

- recommend a framework for the remuneration of Directors, Chief Executive Officer and key senior management officers of the Company and its principal subsidiaries for the Board's approval which covers fees, salaries, allowances, bonuses, options and benefits-in-kind;
- recommend specific remuneration package for Executive Director(s) and Chief Executive Officer of the Company and its principal subsidiaries; and
- recommend specific remuneration package for Non-Executive Directors.

The Executive Chairman of the Company who sits on the Committee abstains from deliberations in respect of his own remuneration and remuneration of those personnel related to him.

**(e) Option Committee**

The Option Committee was formed primarily to administer the executive share option scheme in accordance with the scheme's objectives, bye-laws and guidelines affecting the scheme. The Committee determines the participation eligibility, option offers and allocations and attends to such other matters as may be required affecting the scheme.

As at 31 July 2008, its members consisted of 2 Independent Non-Executive Directors and a Non-Independent Non-Executive Director of the Company as well as a key senior management officer of a principal subsidiary. Its membership was reduced to 3 with the demise of the late Tan Sri Dato' Ahmad Sabki Jahidin. The Committee meets as and when required.

## 3. ACCOUNTABILITY AND AUDIT

### (a) Financial Reporting

The Board aims to present a balanced, clear and understandable assessment of the Group's financial positions and prospects in the annual financial statements and quarterly announcements to shareholders, investors and regulatory authorities.

The Board is assisted by the Audit Committee to oversee the financial reporting processes and the quality of financial reporting of the Group.

The Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements is set out in paragraph 5 herein.

### (b) Internal Control

The Board recognizes that it has overall responsibility for maintaining a system of internal controls for the Group that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures and guidelines.

The Internal Control Statement, which provides an overview of the state of internal control within the Group, is set out in pages 30 to 31 of this Annual Report.

### (c) Relationship with External Auditors

Through the Audit Committee, the Group has established a formal and transparent relationship with the external auditors. The external auditors are invited to discuss the annual financial statements, their audit plan, audit findings and other special matters when necessary. In addition, the Audit Committee also meets with the external auditors without the presence of the Executive Director and Management twice a year.

The duties of the Audit Committee is outlined in the Audit Committee's Report at pages 32 to 35 of this Annual Report.

## 4. RELATIONS WITH SHAREHOLDERS

The Board recognizes the importance of accountability to its shareholders through proper and equal dissemination of information to its shareholders. Towards this end, the Company adheres strictly to the disclosure requirements of Bursa Securities.

The Company reaches out to its shareholders through:-

(a) the distribution of its annual report

(b) quarterly financial results announcements

(c) various disclosures and announcements made to Bursa Securities

(d) the Company's website at www.hdbs.com.my which shareholders can access for information.

The Annual General Meeting is the principal forum for dialogue with shareholders, where shareholders are at liberty to raise questions pertaining to the agenda for discussion at the meeting. Notice of the meeting and related documents are sent to shareholders at least 21 days before the meeting is to be held.

The Board has identified Mr. Ong Eng Kooi as the Senior Independent Non-Executive Director available for communication of any concerns, replacing the late Tan Sri Dato' Ahmad Sabki Jahidin. All communication can be addressed to Mr. Ong Eng Kooi at the registered office of the Company at Level 8, Wisma Sri Pinang, 60 Green Hall, 10200 Penang.

## 5. STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Independent Auditors' Report set out in pages 49 to 50 of this Annual Report, is made with a view of enabling shareholders to distinguish the respective responsibilities of the Directors and the auditors in relation to the financial statements.

The Directors are required by the Companies Act, 1965 to prepare financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of each financial year and of the results for the financial year.

The Directors consider that in preparing the financial statements set out in pages 51 to 121, which have been prepared on a going concern basis, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates have been used and that accounting standards which they consider applicable have been followed.

The Directors have the responsibility for taking reasonable steps to ensure that the Company and its subsidiaries cause to be kept such accounting and other records, that will sufficiently explain the transactions of the Company and its subsidiaries, that will at any time enable the financial position of the Company and its subsidiaries to be readily and properly audited, and that will enable the Directors to ensure that the financial statements comply with the requirements of the Companies Act, 1965.

The Directors also have a general responsibility to take such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Statement of Internal Control



## INTRODUCTION

The Malaysian Code of Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets. The Bursa Malaysia Securities Berhad's Listing Requirements require directors of listed companies to include a statement in their annual reports on the state of their internal controls. The guidelines for directors on internal control namely, the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("Guidance") provides guidance for compliance with these requirements.

Set out below is the Board of Directors' ("Board") Internal Control Statement, which has been prepared in accordance with the Guidance.

## BOARD'S RESPONSIBILITY

The Board recognizes the importance of maintaining a sound system of internal controls and risk management practices as well as good corporate governance. The Board affirms its overall responsibility for the Group's system of internal controls, which includes the establishment of appropriate control environment and risk management framework as well as review of its adequacy and integrity.

In view of the inherent limitations in any system of internal controls, the system is designed to manage rather than eliminate risks. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement, fraud or loss. The system of internal controls includes inter alia, financial, operational, management information systems, organisation and compliance controls.

Also, the Group's system of internal controls involves all management and personnel from each business unit. The Board is responsible for determining key strategies and policies for significant risks and control issues, whilst functional managers of subsidiary companies are responsible for the effective implementation of the Board's policies by designing, operating, monitoring and managing risks and control processes.

## RISK MANAGEMENT FRAMEWORK

The Board regards risk management as an integral part of the Group's business operations, and that the management of all forms of business risks continues to play an important role in ensuring that the business creates and protects shareholders' value.

The Group has in place an ongoing process for identifying, evaluating, managing and reporting significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report. This process is regularly reviewed by the Board to ensure proper management of risks and appropriate measures are timely taken to mitigate any identified weaknesses in the control environment.

To further strengthen the risk management process, Board Risk Management Committees have been established at the key operating subsidiaries, namely HwangDBS Investment Bank Berhad ("HDBSIB") and HwangDBS Investment Management Berhad. These committees meet regularly to oversee the development of general risk policies and procedures, monitor and evaluate the numerous risks that may arise from their respective companies' business activities.

Risk Management Departments are also established at these subsidiaries to assist their respective Board Risk Management Committees in discharging their duties.

Amongst the other committees set up at Management level of HDBSIB to manage specific areas of risks are the Risk Oversight Committee, Credit Approval Committee, Business Continuity Management Committee and Basel II/FRS139 Steering Committee.

## OTHER KEY ELEMENTS OF INTERNAL CONTROL

Apart from the above, the other key elements of the Group's internal control system which have been reviewed by the Board are described below:-

- **Organisational Structure**
  There exists a clearly defined organizational structure with defined lines of job responsibilities and delegation of authority. This will assist in ensuring that effective communication of risk control objectives as well as establishment of authority and accountability is in accordance with Management criteria.

- **Policies and Procedures**
  Documented policies and procedures manuals of business and support units have been approved by the Board for application across the Group. Policies and procedures serve as a guidance to ensure compliance with internal controls and applicable laws and regulations as stated in the operations manuals, guidelines, workflows and directives issued by the Group.

  There are also documented Limits of Approving Authority for key aspects of the businesses, which have been approved by the Board. This provides a sound framework of authority and accountability within the organisation and facilitates proper corporate decision making at the appropriate level in the organisation's hierarchy. The delegation of limits is subject to periodic reviews as to its implementation and continuing suitability in meeting the Group's business objectives and operational needs.

- **Financial Performance Review**
  The Group Finance Department regularly provides comprehensive information to the Board and the Audit Committee on the key subsidiaries' financial reports, key variances and analysis of financial data of the Group. They also ensure maintenance of proper accounting records and the reliability of the financial information is in accordance with the approved accounting standards and in compliance with the regulatory and statutory requirements.

  There is also a detailed budgeting process where key operating units prepare budgets on an annual basis, which are approved by the Board. Comparison of actual performance against the budget is reviewed periodically and regularly updated with explanations for any major variances given to the Board.

- **Compliance**
  Compliance reviews on key subsidiary companies where required, are performed regularly by the Compliance Units of the respective subsidiary companies to assess adherence to existing and new regulatory requirements as well as internal policies and procedures. Any deviation or breaches are reported to the Audit Committee and the respective Boards are kept informed of the causes and the remedial measures taken.

- **Human Resource**
  The professionalism and competence of the Group's human resources are maintained through established recruitment process, performance appraisal system and training. Additional training and development programmes are conducted on an ad-hoc basis when the need arises.

  Also, the ethical behaviour as set out in the key subsidiary companies' Code of Conduct are constantly communicated to employees, which requires all personnel to strictly adhere to the Code in the performance of their duties.

- **Audit**
  Ongoing reviews of the internal control system are carried out by the internal auditors of HDBSIB where the results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority according to their annual risk assessment and in accordance with the annual strategic audit plans approved by the Audit Committee. The Head of Internal Audit functions report to the Audit Committee.

  In addition, the Audit Committee holds regular meetings to discuss findings and make recommendations for improvement by both the internal and external auditors on the state of the internal control system. Thereafter, the minutes of the Audit Committee meetings are tabled to the Board for further review.

## EFFECTIVENESS OF INTERNAL CONTROL

The Board confirms that there is an ongoing process that has been in place throughout the financial year ended 31 July 2008 for identifying, evaluating and managing significant risks faced by the Group and that it has reviewed the effectiveness of the system of internal controls and risk management within the Group for the financial year and has taken account of any material development up to the date of approval of the annual report and financial statements. The process is regularly reviewed by the Board and is in accordance with the guidelines as contained in the Guidance. No material losses were incurred during the financial year as a result of weaknesses in internal controls.

This statement is made in accordance with the resolution of the Board of Directors dated 26 August 2008.

# Audit Committee Report



## ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year ended 31 July 2008, 8 meetings were held by the Audit Committee ("Committee") of the Company. The Committee comprises the following members and details of attendance of each member at the Committee's meetings held during the year are as follows:-

| Composition Of The Committee | No. of Meetings Attended Whilst In Office |
|---|---|
| 1. Tan Sri Dato' Ahmad Sabki Jahidin (Chairman/Independent Non-Executive Director) | 6 out of 8 meetings |
| 2. Ong Eng Kooi (Member/Independent Non-Executive Director) | 8 out of 8 meetings |
| 3. Y.A.M Tengku Syed Badarudin Jamalullail (Member/Independent Non-Executive Director) | 8 out of 8 meetings |
| 4. Kankipati Rajan Raju (Member/Non-Independent Non-Executive Director) | 8 out of 8 meetings |
| 5. Dato' Seri Hwang Sing Lue (Member/Non-Independent Executive Director) | 2 out of 2 meetings |

Notes:-

1. *Tan Sri Dato' Ahmad Sabki Jahidin passed away on 15 September 2008 and Y.A.M Tengku Syed Badarudin Jamalullail has been appointed as Chairman of the Audit Committee with effect from 18 September 2008.*
2. *Dato' Seri Hwang Sing Lue resigned as a member of the Audit Committee with effect from 10 October 2007 in compliance with the Revised Malaysian Code of Corporate Governance issued in October 2007 by the Securities Commission.*

The Group has also established an Audit Committee in the investment banking subsidiary. This Audit Committee meets regularly to appraise the effectiveness of the system of internal controls and corporate governance framework, reviews annual financial statements, audit findings from internal auditors, external auditors, compliance officers and regulatory authorities and recommends appropriate remedial actions to the Board of the investment banking subsidiary.

During the financial year, the Committee performed the duties as set out in its Terms of Reference. The main matters reviewed and discussed by the Committee are set out below and where necessary, the Committee directed actions to be taken by management:-

- The audited financial statements for financial year ended 31 July 2007 and unaudited quarterly financial results announcements of the Group and making recommendations to the Board for consideration and approval
- The external auditor's scope of work and the audit plan, their audit fees, the results of their examination in external audit reports and management letters, as well as new developments on accounting standards and regulatory requirements
- The adequacy of the internal audit plans for the calendar years 2007 and 2008, the implementation of the approved audit plans, resource requirements and performance of the Internal Audit Department
- The adequacy of the annual Compliance Programme of the Futures Broking subsidiary for the financial year ended 31 July 2008
- Reports of the Internal Audit Department, Compliance Department of key subsidiary companies, as well as inspection and examination of reports issued by the relevant regulatory authorities

- Reports on related party transactions
- Risk management reports by the respective Risk Management Committees of the Investment Management and Futures Broking subsidiaries
- Half yearly Reports on Fraud Prevention and Detection for the Group based on feedback from senior management
- Disclosure requirements in the annual report of the Company in compliance with the provisions of the Listing Requirements of Bursa Malaysia Securities Berhad in relation to the Statement on Corporate Governance, Audit Committee Report, Statement of Internal Control and financial results.

The Committee acted as a forum for discussion of internal control, risk management, compliance issues and other related matters that contributed to the Group's overall governance profile and transparency, as well as Board's review of the effectiveness of the Group's system of internal controls.

In line with the Revised Malaysian Code On Corporate Governance, the Committee met with the external auditors twice during the financial year without the presence of Executive Director.

## INTERNAL AUDIT FUNCTIONS

The Group uses the services of the Internal Auditors of its wholly-owned subsidiary, HwangDBS Investment Bank Berhad to assist the Committee in the discharge of its duties and responsibilities. During the year, the Internal Auditors undertook independent reviews of the system of internal controls in key business units of the Group, so as to provide reasonable assurance that:-

- such systems continue to operate satisfactorily and effectively
- assets and resources are safeguarded
- integrity of records and information is protected
- internal policies, procedures and standards are adhered to and
- applicable rules and regulations are complied with.

The scope of the internal audit covered key aspects of business operations of core subsidiary companies with primary focus on HwangDBS Investment Bank Berhad. Audit findings and areas of concern that need improvements were highlighted in the internal audit reports and reviewed during the Committee’s meetings. During Board meetings, the Chairman of the Committee briefed the Board on audit matters and the minutes of the Committee’s meetings. The Internal Auditors also monitored management's corrective action plans in order to obtain assurance that all key risks and control concerns have been duly addressed.

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### 1. CONSTITUTION

The Audit Committee was established on 1 March 1996.

### 2. MEMBERSHIP

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall comprise not less than 3 members, the majority of whom must be Independent Non-Executive Directors. At least 1 member of the Committee:-

- must be a member of the Malaysian Institute of Accountants; or
- if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years of working experience and
  - he must have passed the examination specified in Part I of the 1st Schedule to the Accountants Act, 1967; or
  - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule to the Accountants Act, 1967.

The members of the Committee shall elect the Chairman from among their number who shall be an Independent Director.

### 3. ATTENDANCE AT MEETINGS

The Head of Internal Audit, Head of Compliance and Head of Finance of a subsidiary company will attend meetings. If necessary, the Committee may request other Directors and senior management to attend any particular meeting. At least twice a year, the Committee shall meet with the external auditors without the presence of any Executive Director. The Company Secretaries shall be the secretaries of the Committee.

### 4. FREQUENCY OF MEETINGS

Meetings will be held not less than 4 times a year. The external auditors may request a meeting if they consider that one is necessary. The quorum for any meeting shall be majority members of the Committee, with more than half of the members present being Independent Non-Executive Directors.

### 5. AUTHORITY

The Committee is authorized by the Board:-

(a) to investigate any activity within its terms of reference.

(b) to have full and unrestricted access to any information it requires from any employees and all employees are directed to co-operate with any request made by the Committee.

(c) to have access to resources required to perform its duties.

(d) to have direct communication channels with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees whenever deemed necessary.

(e) to direct the Internal Audit Department in its activities and resources.

(f) to obtain external legal or other independent professional advice, if it considers necessary. In the event that any member of the Committee shall need to seek external legal or other independent professional advice in furtherance of his duties, he shall first consult with and obtain prior approval of the Chairman of the Committee.

### 6. DUTIES

The duties of the Committee are:-

(a) to recommend the appointment of the external auditors, their audit fee and any questions of their resignation or dismissal to the Board.

(b) to review with the external auditors:-

- the audit plan;
- their evaluation of the system of internal controls; and
- their audit reports.

(c) to review the financial statements of the Company and the Group before submission to the Board, focusing particularly on:-
- public announcements of results and dividend payment;
- any changes in accounting policies and practices;
- major judgmental areas;
- significant adjustments resulting from the audit;
- the going-concern assumption;
- compliance with applicable approved accounting standards; and
- compliance with regulatory and statutory requirements.

(d) to discuss problems and reservations arising from the interim and final audits and any matters the external auditors may wish to discuss (in the absence of management where necessary).

(e) to do the following:-
- to review and approve the internal audit strategic plan, consider major findings and management's response to findings in the Internal Audit reports and where necessary, the Committee will direct actions to be taken by management, as well as to review the level of co-ordination between the internal and external auditors;
- to review the adequacy of the scope, functions, competency and resources of the internal audit function and to ensure that it has the necessary authority to carry out its work;
- to review the appraisal or assessment of the performance of the staff of the internal audit function;
- to approve any appointment or termination of senior staff of the internal audit function; and
- to be informed of resignation of any internal audit staff members.

(f) to keep under review the effectiveness and proper monitoring of internal control system.

(g) to review inspection and examination reports issued by the relevant regulatory authorities to ensure that appropriate actions are taken in respect of the findings and where necessary, direct actions to be taken by management.

(h) to review related party transactions that may arise within the Company or Group.

(i) to consider reports prepared by Compliance Officers of key subsidiary companies relating to compliance with statutory and regulatory requirements and issue directives for necessary remedial actions to be taken, if any.

(j) to consider reports prepared by the respective Risk Management Committees of key subsidiary companies relating to risk management issues and findings, including any proposed remedial actions.

(k) to review and assess with the senior management and external auditors the Statement of Internal Control of the Group for inclusion in the annual report.

(l) to submit to the Board an Audit Committee report for inclusion in the annual report.

(m) to review the Statement on Corporate Governance and best practices for inclusion in the annual report.

(n) to perform such other functions as may be agreed upon by the Committee and the Board.

**7. REPORTING PROCEDURES**

The Company Secretaries shall circulate the minutes of meetings of the Committee to all members of the Board.

# Additional Compliance Information

## MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

Except as disclosed in the financial statements, there are no material contracts (not being contracts entered into in the ordinary course of business) subsisting as at 31 July 2008 or if not then subsisting, entered into since the end of the previous financial year by the Company or its subsidiaries, which involved the interests of the directors or major shareholders.

## SANCTIONS AND/OR PENALTIES

The Company is not aware of any sanctions/penalties imposed on the Company, its subsidiaries, directors or management by relevant regulatory bodies that have been made public.

## RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

Details of recurrent related party transactions made during the financial year ended 31 July 2008 pursuant to the shareholders' mandate obtained by the Company at the Annual General Meeting held on 27 November 2007 where:-

(a) the consideration, value of the assets, capital outlay or costs of the aggregated transactions is equal to or exceeds RM1 million; or

(b) any one of the percentage ratios of such aggregated transactions is equal to or exceeds 1%

whichever is the higher are as follows:-

| Name of Company Within The Hwang-DBS Group Involved In The Transaction | Nature of Transaction | Name of Related Party | Nature of Relationship | Value of Transaction (RM'000) |
|---|---|---|---|---|
| HwangDBS Investment Management Berhad ("HDBSIM") | Fee receivable from DBS Asset Management Ltd ("DBSAM") in respect of investment made by feeder funds managed by HDBSIM in funds managed by DBSAM | DBSAM | • DBSAM, owner of 30% equity interest in HDBSIM, is a person connected to a deemed Major Shareholder of the Company, namely DBS Bank Ltd | 1,223 |

# Corporate Responsibility Initiative





The Group is committed to fulfill its corporate responsibility ("CR") and initiatives are in place to inculcate ethical values and respect by our employees for the environment and community.

Within the working environment, employees are encouraged to reduce the use of paper, recycle any recyclable items and reduce wastage. Efforts have also been made to conserve energy by ensuring that lights and air-conditioning are operating only when there is a need. This instills good habits to be practiced by employees not just in the office but at home and anywhere, hence providing a continuum of good practices.

The Group also supports good causes through donations to hospital, schools and other non-profitable organizations. Scholarship, merit award, book prizes were also sponsored by the Group for outstanding students of a university college. Through the Group's Internship and Management Trainee Programmes, doors are opened to graduates and undergraduates. This programme not only provides a good opportunity for new graduates and undergraduates to acquire an understanding of the financial markets, but also, specifically, to the Group's activities. They may later form part of the Group's potential talent pool.

Apart from the initiatives that are already in place, the Group has recently launched a more structured CR programme that are sustainable and expected to have long-term effects. A Management Committee has been entrusted with the task of overseeing the implementation of the newly launched programme. The focus of the programme is the conservation of energy and resources. The structured 3-year plan will inculcate an environmental and social conscious corporate culture amongst our employees. To ensure success and sustainability, the plan will be executed over 3 phases.

Phase 1 will start with creating awareness and interest internally. Efforts will take the form of talks conducted on recycling and waste reduction, pamphlets on recycling and screening of relevant video on environmental issues. Phase 2 will step up efforts to create personal and positive experiences for the individual employee and his immediate surrounding. The aim is to create and identify advocates amongst our employees. Phase 3 is when the efforts of creating awareness and identifying advocates within the Group comes to fruition with the scaling up of efforts to the community at large.

# Analysis of Shareholdings *As At 10 October 2008*

| | |
|---|---|
| **Authorised Capital** | **: RM1,000,000,000.00** |
| **Issued and Fully Paid** | **: RM255,177,900.00 (excluding 10,667,100 treasury shares)** |
| **Class of Shares** | **: Ordinary Shares of RM1.00 each fully paid** |
| **No. of Shareholders** | **: 6,516** |
| **Voting Right** | **: One vote per ordinary share** |

## Distribution Schedule of Shareholders

| Size of Holdings | No . of Shareholders | % | No. of Shares | % of Issued Share Capital |
|---|---|---|---|---|
| Less than 100 | 8 | 0.12 | 171 | 0.00 |
| 100 – 1,000 | 3,064 | 47.02 | 3,029,786 | 1.19 |
| 1,001 – 10,000 | 2,777 | 42.62 | 11,102,100 | 4.35 |
| 10,001 – 100,000 | 573 | 8.80 | 16,765,101 | 6.57 |
| 100,001 – less than 5% of issued shares | 90 | 1.38 | 120,408,742 | 47.19 |
| 5% and above of issued shares | 4 | 0.06 | 103,872,000 | 40.70 |
| | **6,516** | **100.00** | **255,177,900** | **100.00** |

## Thirty Largest Shareholders

| Name of Shareholders | No. of Shares | % of Issued Share Capital |
|---|---|---|
| 1. DBS Vickers Securities (Malaysia) Pte Ltd | 60,000,000 | 23.51 |
| 2. Hwang Enterprises Sdn Bhd | 16,872,000 | 6.61 |
| 3. Malaysia Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Hwang Enterprises Sdn Bhd | 14,000,000 | 5.49 |
| 4. RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Hwang Enterprises Sdn Bhd | 13,000,000 | 5.09 |
| 5. Mayban Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Hwang Enterprises Sdn Bhd | 12,000,000 | 4.70 |
| 6. HSBC Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Hwang Enterprises Sdn Bhd | 11,800,000 | 4.62 |
| 7. HDM Nominees (Asing) Sdn Bhd<br>AL Sueban Limited Company W.L.L | 10,894,000 | 4.27 |
| 8. Mayban Nominees (Asing) Sdn Bhd<br>DBS Bank For DBS Bank Ltd | 10,600,000 | 4.15 |

## Thirty Largest Shareholders (cont'd)

| Name of Shareholders | No. of Shares | % of Issued Share Capital |
|---|---|---|
| 9. Mayban Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Hwang Sing Lue | 10,106,086 | 3.96 |
| 10. HDM Nominees (Tempatan) Sdn Bhd<br>Kwek Kooi Hian | 7,228,464 | 2.83 |
| 11. HDM Nominees (Asing) Sdn Bhd<br>DBS Vickers Secs (S) Pte Ltd For Asiabelle Investment Pte Ltd | 6,500,000 | 2.55 |
| 12. HDM Nominees (Tempatan) Sdn Bhd<br>Tan Lee Sin | 6,463,000 | 2.53 |
| 13. Chua Holdings Sdn Bhd | 4,171,658 | 1.63 |
| 14. Amanah Raya Nominees (Tempatan) Sdn Bhd<br>Skim Amanah Saham Bumiputera | 3,000,000 | 1.18 |
| 15. Wang Hui Tzu | 2,983,543 | 1.17 |
| 16. HDM Nominees (Tempatan) Sdn Bhd<br>Hock Kheng Industries Sdn Bhd | 2,972,903 | 1.17 |
| 17. HSBC Nominees (Asing) Sdn Bhd<br>BNY Brussels For Queensland Investment Corporation | 2,152,000 | 0.84 |
| 18. HDM Nominees (Tempatan) Sdn Bhd<br>Tan Koo Ching | 2,000,000 | 0.78 |
| 19. Ong Guat Li | 1,846,707 | 0.72 |
| 20. Southern Consortium Sdn Bhd | 1,772,000 | 0.69 |
| 21. Mandy Ong Siew Kin | 1,659,000 | 0.65 |
| 22. HDM Nominees (Tempatan) Sdn Bhd<br>Ooi Ah Teik | 1,561,000 | 0.61 |
| 23. Citigroup Nominees (Asing) Sdn Bhd<br>CBNY For DFA Emerging Markets Fund | 908,700 | 0.36 |
| 24. Dato' Seri Hwang Sing Lue | 858,033 | 0.34 |
| 25. Tan Lee Sin | 783,000 | 0.31 |
| 26. Southern Investment Bank Berhad<br>Employee's Provident Fund | 675,000 | 0.27 |
| 27. Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | 660,000 | 0.26 |
| 28. Ong Chin Hong | 633,015 | 0.25 |
| 29. Looi Siew Lean | 586,000 | 0.23 |
| 30. Citigroup Nominees (Asing) Sdn Bhd<br>Bear Stearns Securities Corp For Third Avenue Global Microcap Value Fund LP | 574,142 | 0.22 |
| **Total** | **209,260,251** | **81.99** |

# Analysis of Shareholdings *As At 10 October 2008* (cont'd)

## Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 10 October 2008 were as follows:-

| Name of Shareholders | | Direct Interest | | Deemed Interest | |
|---|---|---|---|---|---|
| | | No. of Shares | % | No. of Shares | % |
| Dato' Seri Hwang Sing Lue | (a) | 10,964,119 | 4.30 | 68,697,000 | 26.92 |
| Hwang Lip Teik | (b) | 5,000 | – | 68,102,000 | 26.69 |
| Hwang Lip Koon | (b) | 25,000 | 0.01 | 68,102,000 | 26.69 |
| Hwang Enterprises Sdn Bhd | | 67,672,000 | 26.52 | – | – |
| DBS Vickers Securities (Malaysia) Pte Ltd (in liquidation) | | 60,000,000 | 23.51 | – | – |
| DBS Securities Holding Pte Ltd (in liquidation) | (c) | – | – | 60,000,000 | 23.51 |
| DBS Vickers Securities Holdings Pte Ltd | (d) | – | – | 60,000,000 | 23.51 |
| DBS Bank Ltd | (e) | 10,600,000 | 4.15 | 60,000,000 | 23.51 |
| DBS Group Holdings Ltd | (f) | – | – | 70,600,000 | 27.67 |
| Maju Holdings Pte Ltd | (g) | – | – | 70,600,000 | 27.67 |
| Temasek Holdings (Private) Limited | (h) | – | – | 70,600,000 | 27.67 |
| Minister for Finance (Incorporated), Singapore | (i) | – | – | 70,600,000 | 27.67 |

Notes:-

*(a) Deemed interested through Hwang Enterprises Sdn Bhd, Ladies' Own Sdn Bhd, Pensin Investments Pte Ltd, his daughter and son Hwang Lip Koon*

*(b) Deemed interested through Hwang Enterprises Sdn Bhd and Ladies' Own Sdn Bhd*

*(c) Deemed interested through DBS Vickers Securities (Malaysia) Pte Ltd (in liquidation)*

*(d) Deemed interested through DBS Securities Holding Pte Ltd (in liquidation)*

*(e) Deemed interested through DBS Vickers Securities Holdings Pte Ltd*

*(f) Deemed interested through DBS Bank Ltd*

*(g) Deemed interested through DBS Group Holdings Ltd*

*(h) Deemed interested through DBS Group Holdings Ltd and Maju Holdings Pte Ltd*

*(i) Deemed interested through Temasek Holdings (Private) Limited*

## Directors' Shareholdings

### In the Company

| Name of Directors | | Direct Interest No. of Shares | % | Deemed Interest No. of Shares | % |
|---|---|---|---|---|---|
| Dato' Seri Hwang Sing Lue | (a) | 10,964,119 | 4.30 | 68,697,000 | 26.92 |
| Hwang Lip Teik | (b) | 5,000 | – | 68,102,000 | 26.69 |
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | | 660,000 | 0.26 | – | – |
| Ang Teik Siew (Ang Teik Lim Eric) | | – | – | – | – |
| Kankipati Rajan Raju | | – | – | – | – |
| Ng Wai Hung, Andrew | | – | – | – | – |
| Ong Eng Kooi | | 25,000 | 0.01 | – | – |
| Y.A.M. Tengku Syed Badarudin Jamalullail | | – | – | – | – |

Notes:-

*(a) Deemed interested through Hwang Enterprises Sdn Bhd, Ladies' Own Sdn Bhd, Pensin Investments Pte Ltd, his daughter and son Hwang Lip Koon*

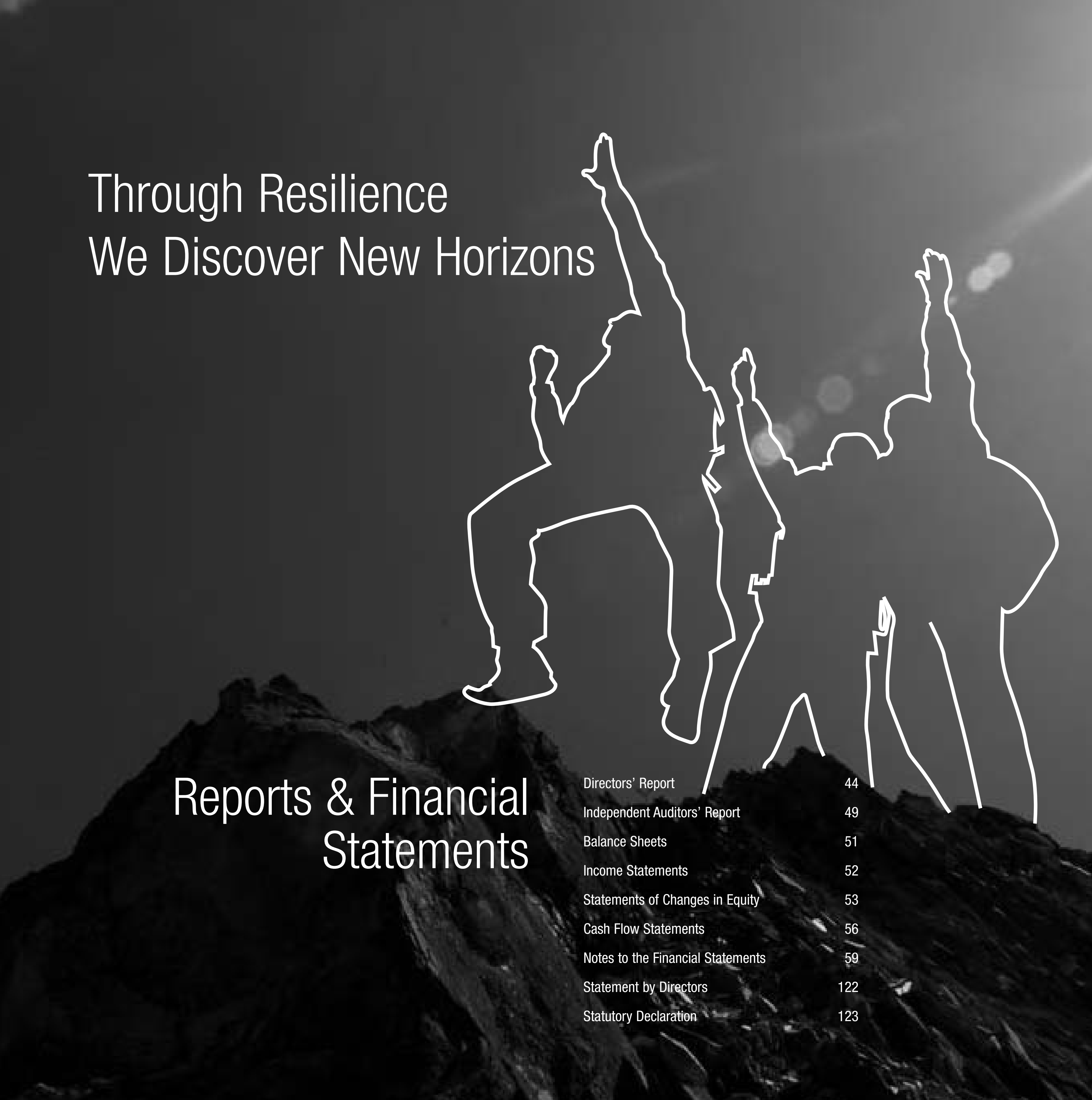
*(b) Deemed interested through Hwang Enterprises Sdn Bhd and Ladies' Own Sdn Bhd*

## In Related Company – HwangDBS Investment Management Berhad

| Name of Director | Direct Interest No. of Shares | % | Deemed Interest No. of Shares | % |
|---|---|---|---|---|
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | 1,700,000 | 17 | – | – |

# Particulars of Properties Held *by Hwang-DBS Group*

| Location | Description of Property | Tenure | Approximate Area (Sq. Ft.) | Approximate Age (Years) | Net Book Value As At 31/07/2008 (RM) | Date of Acquisition |
|---|---|---|---|---|---|---|
| Levels 2, 3 & 4, Wisma Sri Pinang, 60 Green Hall, 10200 Penang | Office | Freehold | 25,399 | 24 | 5,353,089 | 01/03/1993 |
| Level 7, Wisma Sri Pinang, 60 Green Hall, 10200 Penang | Office | Freehold | 9,483 | 24 | 2,370,417 | 10/03/1994 |
| Level 8, Wisma Sri Pinang, 60 Green Hall, 10200 Penang | Office | Freehold | 8,568 | 20 | 1,700,374 | 10/03/1994 |
| A 7-storey building bearing address Wisma Sri Pinang II, 42 Green Hall, 10200 Penang | Office | Freehold | 36,187 | 10 | 10,760,716 | 01/08/1996 |
| 18th, 19th and 20th Floor, Plaza Masalam, 2, Jalan Tengku Ampuan Zabedah E/9E, Section 9, 40100 Shah Alam, Selangor | Office | Leasehold 99 years expiring in 2094 | 54,069 | 11 | 8,420,530 | 19/05/1999 |
| 16th & 17th Floor, Plaza Masalam, 2, Jalan Tengku Ampuan Zabedah E/9E, Section 9, 40100 Shah Alam, Selangor | Office | Leasehold 99 years expiring in 2094 | 36,046 | 11 | 6,714,168 | 29/08/2000 |
| Grant No. 33676, Lot No. 3041, Bandar Taiping, Daerah Larut dan Matang, Perak | Vacant Land | Freehold | 40,214 | – | 839,200 | 07/09/2000 |
| Grant Nos. 44963, 44964 and 44965, Lot Nos. 288, 289 and 290 all of North East District, Tanjong Bungah, Penang | Vacant Land | Freehold | 39,460 | – | 1,229,810 | 12/06/2001 |
| Level 7, Johor Bahru City Square (Office Tower), 106-108, Jalan Wong Ah Fook, 80000 Johor Bahru, Johor | Office | Leasehold 99 years expiring in 2091 | 18,648 | 9 | 6,029,589 | 20/06/2001 |
| No. 2 & 4, Jalan Perda Barat, Bandar Perda, 14000 Bukit Mertajam, Penang | Shoplot | Freehold | 3,930 | 9 | 1,663,167 | 11/06/2007 |



# Through Resilience We Discover New Horizons

## Reports & Financial Statements

# Directors' Report

For The Financial Year Ended 31 July 2008

The directors submit their report together with the audited financial statements of the group and of the company for the financial year ended 31 July 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the company during the financial year is that of investment holding. The principal activities of the subsidiaries during the financial year are as set out in note 16 to the financial statements. There have been no significant changes in the nature of these activities during the financial year other than those disclosed in note 16 to the financial statements.

## FINANCIAL RESULTS

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit for the financial year attributable to: | | |
| Equity holders of the company | 36,303 | 32,908 |
| Minority interests | 4,535 | – |
| | 40,838 | 32,908 |

In the opinion of the directors, the results of the operations of the group and of the company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in the financial statements.

## DIVIDENDS

The dividends paid by the company since the end of the previous financial year are as follows:

| | RM'000 |
|---|---|
| **In respect of the financial year ended 31 July 2007:** | |
| Final dividend of 5 sen gross per share, less current income tax at 27%, paid on 27 December 2007: | |
| – as shown in the Directors' Report for the financial year ended 31 July 2007 | 9,304 |
| – dividend on an additional 245,000 shares issued from 1 August 2007 to 6 December 2007 in respect of options exercised under the Executive Share Option Scheme | 9 |
| | 9,313 |
| **In respect of the financial year ended 31 July 2008:** | |
| Interim dividend of 5 sen gross per share, less current income tax at 26%, paid on 15 May 2008 | 9,442 |

The directors now recommend the payment of a final dividend in respect of the financial year ended 31 July 2008 of 5 sen gross per share, less current income tax at 25%, amounting to RM9,569,171 based on the issued and paid-up share capital of the company as at 31 July 2008, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the company. This proposed dividend will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 July 2009 when approved by the shareholders.

## RESERVES AND PROVISIONS

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

## SHARES REPURCHASED

During the financial year, the company repurchased 5,000 of its issued shares from the open market to enhance the value of the company and in the best interests of the company and its shareholders, as disclosed in note 26 to the financial statements.

## EXECUTIVE SHARE OPTION SCHEME

During the financial year ended 31 July 2004, the company implemented an Executive Share Option Scheme ("ESOS") for the eligible executives of Hwang-DBS Group. The ESOS is governed by the by-laws which were approved by the company's shareholders at the Extraordinary General Meeting held on 21 November 2003. Details of the ESOS are as disclosed in note 26 to the financial statements.

The company has been granted an exemption by the Companies Commission of Malaysia from having to disclose the names of the option holders who were granted less than 30,000 options during the financial year. The names of the option holders to whom 30,000 options and above are granted and the number of options granted during the financial year are as disclosed in note 26 to the financial statements.

The number of new shares offered for subscription during the financial year, pursuant to the ESOS, has been verified to the extent considered appropriate by the auditors.

## ISSUE OF SHARES

During the financial year, the issued and paid-up share capital of the company was increased from RM265,559,000 to RM265,845,000 by way of an issue of 286,000 ordinary shares of RM1 each for cash at the respective option prices, which range from RM1.32 to RM2.29 per share by virtue of the exercise of options granted under the company's ESOS. The newly issued ordinary shares rank pari passu in all respects with the existing issued ordinary shares of the company.

## DIRECTORS

The directors in office since the date of the last report are:

| | |
|---|---|
| Dato' Seri Hwang Sing Lue | |
| Hwang Lip Teik | |
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | |
| Ang Teik Siew (Ang Teik Lim Eric) | |
| Kankipati Rajan Raju | |
| Ong Eng Kooi | |
| Y.A.M. Tengku Syed Badarudin Jamalullail | |
| Ng Wai Hung, Andrew | (appointed on 16 July 2008) |
| Lau Cheng Huat, David | (resigned on 25 April 2008) |
| Tan Sri Dato' Ahmad Sabki Jahidin | (passed away on 15 September 2008) |

Dato' Seri Hwang Sing Lue and Ong Eng Kooi who are above seventy years of age will retire pursuant to Section 129(2) of the Companies Act, 1965 at the forthcoming Annual General Meeting and offer themselves for re-appointment in accordance with Section 129(6) of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the company and its related corporations during the financial year are as follows:

| | Number of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | **1 August 2007** | **Addition** | **Disposal** | **31 July 2008** |
| **Hwang-DBS (Malaysia) Berhad** | | | | |
| **Direct interest** | | | | |
| Dato' Seri Hwang Sing Lue | 10,964,119 | – | – | 10,964,119 |
| Hwang Lip Teik | 5,000 | – | – | 5,000 |
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | 500,000 | 160,000 | – | 660,000 |
| Tan Sri Dato' Ahmad Sabki Jahidin | 65,000 | – | – | 65,000 |
| Ong Eng Kooi | 25,000 | – | – | 25,000 |
| **Indirect interest** | | | | |
| Dato' Seri Hwang Sing Lue | 68,182,000 | 515,000 | – | 68,697,000 |
| Hwang Lip Teik | 68,102,000 | – | – | 68,102,000 |
| **HwangDBS Investment Management Berhad** | | | | |
| **Direct interest** | | | | |
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | 1,700,000 | – | – | 1,700,000 |

| | Number of ordinary shares of RM1 each under options | | | |
|---|---|---|---|---|
| | **1 August 2007** | **Granted** | **Exercised** | **31 July 2008** |
| **Hwang-DBS (Malaysia) Berhad** | | | | |
| Dato' Seri Hwang Sing Lue | 50,000 | – | – | 50,000 |
| Hwang Lip Teik | 130,000 | 50,000 | – | 180,000 |
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | 160,000 | 35,000 | (160,000) | 35,000 |

By virtue of their interests in shares in the company, Dato' Seri Hwang Sing Lue and Hwang Lip Teik are also deemed to have interests in the shares in all the subsidiaries to the extent that the company has interests.

Other than the above, none of the other directors in office at the end of the financial year had any interest in the shares in the company and its related corporations.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than the directors' remuneration as shown in note 33 to the financial statements) by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest other than benefits that may be deemed to have arisen in relation to transactions entered into in the ordinary course of business as disclosed in note 41 to the financial statements.

Neither during nor at the end of the financial year was the company a party to any arrangement whose object was to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate except for the share options granted to certain directors pursuant to the company's ESOS.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets were made out, the directors took reasonable steps:

(a) to ascertain the action 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

(b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:

(a) which would render the amounts written off or allowed for bad and doubtful debts of the group and of the company inadequate to any material extent or the values attributed to current assets of the group and of the company misleading; and

(b) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the group and of the company misleading or inappropriate.

In the interval between the end of the financial year and the date of this report:

(a) no item, transaction or event of a material and unusual nature has arisen which, in the opinion of the directors, would substantially affect the results of the operations of the group and of the company for the financial year in which this report is made except for the subsequent events disclosed in note 52 to the financial statements; and

(b) no charge has arisen on the assets of any company in the group which secures the liability of any other person nor has any contingent liability arisen in any company in the group.

No contingent or other liability of any company in the group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the company and its subsidiaries to meet their obligations when they fall due.

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

## RATING BY RATING AGENCIES

The company is not rated by an external agency. In July 2008, Rating Agency Malaysia Berhad ("RAM") has reaffirmed the long term rating of $A_2$ and short term rating of P1 of its wholly-owned subsidiary, HwangDBS Investment Bank Berhad respectively.

Financial institutions rated in 'A' category are adjudged to offer adequate safety for timely payments of financial obligations, and has adequate credit profile but possess one or more problem areas, giving rise to the possibility of future riskiness. Entities rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic condition than those rated in the higher categories. The subscript 2 in this category indicates a mid-ranking in the A category.

Financial institutions in the 'P1' rating are defined by RAM as having superior capabilities for timely payments of obligations.

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are as disclosed in note 51 to the financial statements.

## AUDITORS

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

In accordance with a resolution of the Board of Directors dated 30 September 2008.

**DATO' SERI HWANG SING LUE**
Executive Chairman

**HWANG LIP TEIK**
Director

# Independent Auditors' Report

To the Members of Hwang-DBS (Malaysia) Berhad





## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hwang-DBS (Malaysia) Berhad, which comprise the balance sheets as at 31 July 2008 of the group and of the company, and the income statements, statements of changes in equity and cash flow statements of the group and of the company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on page 51 to 121.

**Directors' Responsibility for the Financial Statements**

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards in Malaysia, Bank Negara Malaysia Guidelines and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal controls 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 controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the group and of the company as of 31 July 2008 and of their financial performance and cash flows for the financial year then ended.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the company'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) Our audit reports on the accounts 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 members of the company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

**SOO HOO KHOON YEAN**
(No. 2682/10/09 (J))
Chartered Accountant

Penang
30 September 2008

# Balance Sheets

As At 31 July 2008





| | Note | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and short term funds | 5 | **1,256,975** | 592,719 | **16,849** | 6,708 |
| Deposits and placements with banks and other financial institutions | 6 | **147,773** | 15,000 | **–** | – |
| Securities held-for-trading | 7 | **1,229,259** | 12,549 | **–** | – |
| Securities available-for-sale ("AFS") | 8 | **33,161** | 143,390 | **16,267** | 28,368 |
| Loans, advances and financing | 9 | **565,332** | 284,515 | **–** | – |
| Clients' and brokers' balances | 10 | **162,109** | 712,107 | **–** | – |
| Derivative assets | 11 | **14,955** | 3 | **–** | – |
| Other assets | 12 | **44,768** | 25,759 | **40,994** | 35,675 |
| Statutory deposits with Bank Negara Malaysia | 14 | **29,570** | – | **–** | – |
| Tax recoverable | | **11,192** | 4,825 | **5,265** | 4,212 |
| Deferred tax assets | 15 | **2,918** | 1,051 | **–** | – |
| Investments in subsidiaries | 16 | **–** | – | **516,271** | 516,679 |
| Interests in jointly controlled entities | 17 | **123** | 480 | **130** | 1,434 |
| Property, plant and equipment | 18 | **62,764** | 63,925 | **628** | – |
| Investment properties | 19 | **6,237** | 17,950 | **–** | – |
| Intangible assets | 20 | **162,619** | 162,619 | **–** | – |
| **TOTAL ASSETS** | | **3,729,755** | 2,036,892 | **596,404** | 593,076 |
| **LIABILITIES AND EQUITY** | | | | | |
| Deposits from customers | 21 | **1,052,235** | 88,605 | **–** | – |
| Deposits and placements of banks and other financial institutions | 22 | **1,125,548** | 174,502 | **–** | – |
| Clients' and brokers' balances | 23 | **196,861** | 538,918 | **–** | – |
| Derivative liabilities | 11 | **24,171** | 71 | **–** | – |
| Other liabilities | 24 | **258,713** | 313,384 | **4,001** | 7,315 |
| Taxation | | **692** | 5,103 | **–** | – |
| Deferred tax liabilities | 15 | **596** | 543 | **2** | – |
| Borrowings | 25 | **312,000** | 168,000 | **150,000** | 150,000 |
| **TOTAL LIABILITIES** | | **2,970,816** | 1,289,126 | **154,003** | 157,315 |
| Share capital | 26 | **265,845** | 265,559 | **265,845** | 265,559 |
| Reserves | 27 | **496,518** | 488,441 | **192,589** | 186,226 |
| Treasury shares, at cost | 26 | **(16,033)** | (16,024) | **(16,033)** | (16,024) |
| | | **746,330** | 737,976 | **442,401** | 435,761 |
| Minority interests | | **12,609** | 9,790 | **–** | – |
| **TOTAL EQUITY** | | **758,939** | 747,766 | **442,401** | 435,761 |
| **TOTAL LIABILITIES AND EQUITY** | | **3,729,755** | 2,036,892 | **596,404** | 593,076 |
| **COMMITMENTS AND CONTINGENCIES** | 45 | **10,830,325** | 273,361 | **–** | – |

The accompanying notes form an integral part of the financial statements.

# Income Statements

For The Financial Year Ended 31 July 2008

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Operating revenue** | 28 | **348,593** | 358,792 | **55,383** | 18,708 |
| Interest income | 29 | **105,466** | 31,812 | **2,070** | 1,862 |
| Interest expense | 30 | **(62,115)** | (11,750) | **(6,211)** | (6,635) |
| **Net interest income/(expense)** | | **43,351** | 20,062 | **(4,141)** | (4,773) |
| Other operating income | 31 | **213,156** | 340,213 | **55,886** | 23,725 |
| | | **256,507** | 360,275 | **51,745** | 18,952 |
| Other operating expenses | 32 | **(193,598)** | (243,903) | **(6,237)** | (5,481) |
| | | **62,909** | 116,372 | **45,508** | 13,471 |
| Allowance for losses on loans, advances and financing | 34 | **(7,004)** | (2,655) | **–** | – |
| Write back of allowance for bad and doubtful debts on clients' balances and trade receivables | 35 | **8** | 1,992 | **–** | – |
| Impairment loss | 36 | **–** | (3,390) | **(1,304)** | – |
| | | **55,913** | 112,319 | **44,204** | 13,471 |
| Share of results of jointly controlled entities, net of tax | 17 | **(357)** | (608) | **–** | – |
| **Profit before taxation** | | **55,556** | 111,711 | **44,204** | 13,471 |
| Taxation | 37 | **(14,718)** | (30,898) | **(11,296)** | (1,623) |
| **Profit for the financial year** | | **40,838** | 80,813 | **32,908** | 11,848 |
| **Attributable to:** | | | | | |
| Equity holders of the company | | **36,303** | 77,634 | **32,908** | 11,848 |
| Minority interests | | **4,535** | 3,179 | **–** | – |
| | | **40,838** | 80,813 | **32,908** | 11,848 |
| **Earnings per share** (sen): | 38 | | | | |
| – basic | | **14.23** | 30.54 | | |
| – diluted | | **14.22** | 30.48 | | |
| **Dividends per share** (sen) | 39 | | | **10.0** | 10.0 |

The accompanying notes form an integral part of the financial statements.

# Statements of Changes in Equity

## For The Financial Year Ended 31 July 2008





| | | Attributable to equity holders of the company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued and fully paid ordinary shares of RM1 each | | | | | Non-distributable | | Distributable | | | |
| | Note | Number of shares '000 | Nominal value RM'000 | Treasury shares RM'000 | Share premium RM'000 | Statutory reserve RM'000 | AFS reserve RM'000 | Options reserve RM'000 | Retained profits RM'000 | Sub–total RM'000 | Minority interests RM'000 | Total equity RM'000 |
| **Group** | | | | | | | | | | | | |
| At 1 August 2007 | | **254,897** | **265,559** | **(16,024)** | **32,884** | **37,926** | **7,890** | **320** | **409,421** | **737,976** | **9,790** | **747,766** |
| Net change in fair value of securities AFS, net of tax | | – | – | – | – | – | (6,985) | – | – | (6,985) | – | (6,985) |
| Net gain transferred to income statement on disposal of securities AFS | | – | – | – | – | – | (2,823) | – | – | (2,823) | – | (2,823) |
| Net loss recognised directly in equity | | – | – | – | – | – | (9,808) | – | – | (9,808) | – | (9,808) |
| Profit for the financial year | | – | – | – | – | – | – | – | 36,303 | 36,303 | 4,535 | 40,838 |
| Total recognised income and expenses for the financial year | | – | – | – | – | – | (9,808) | – | 36,303 | 26,495 | 4,535 | 31,030 |
| Transfer to statutory reserve | | – | – | – | – | 14,631 | – | – | (14,631) | – | – | – |
| Shares repurchased held as treasury shares at cost | 26 | (5) | – | (9) | – | – | – | – | – | (9) | – | (9) |
| Issue of options | | – | – | – | – | – | – | 154 | – | 154 | – | 154 |
| Options exercised | 26 | 286 | 286 | – | 206 | – | – | (23) | – | 469 | – | 469 |
| Options terminated | | – | – | – | – | – | – | (20) | 20 | – | – | – |
| Dividends in respect of the financial year ended: | | | | | | | | | | | | |
| – 31 July 2007 | 39 | – | – | – | – | – | – | – | (9,313) | (9,313) | – | (9,313) |
| – 31 July 2008 | 39 | – | – | – | – | – | – | – | (9,442) | (9,442) | – | (9,442) |
| Dividend paid by a subsidiary to minority interests | | – | – | – | – | – | – | – | – | – | (1,716) | (1,716) |
| **At 31 July 2008** | | **255,178** | **265,845** | **(16,033)** | **33,090** | **52,557** | **(1,918)** | **431** | **412,358** | **746,330** | **12,609** | **758,939** |

The accompanying notes form an integral part of the financial statements.

# Statements of Changes in Equity (cont'd)

## For The Financial Year Ended 31 July 2008

| | | Attributable to equity holders of the company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued and fully paid ordinary shares of RM1 each | | | | | Non-distributable | | Distributable | | | |
| | Note | Number of shares '000 | Nominal value RM'000 | Treasury shares RM'000 | Share premium RM'000 | Statutory reserve RM'000 | AFS reserve RM'000 | Options reserve RM'000 | Retained profits RM'000 | Sub–total RM'000 | Minority interests RM'000 | Total equity RM'000 |
| **Group** | | | | | | | | | | | | |
| At 1 August 2006 | | 254,138 | 264,165 | (15,025) | 32,014 | – | (1,811) | – | 388,147 | 667,490 | 7,965 | 675,455 |
| Net change in fair value of securities AFS, net of tax | | – | – | – | – | – | 13,752 | – | – | 13,752 | – | 13,752 |
| Net gain transferred to income statement on disposal of securities AFS | | – | – | – | – | – | (4,051) | – | – | (4,051) | – | (4,051) |
| Net gain recognised directly in equity | | – | – | – | – | – | 9,701 | – | – | 9,701 | – | 9,701 |
| Profit for the financial year | | – | – | – | – | – | – | – | 77,634 | 77,634 | 3,179 | 80,813 |
| Total recognised income and expenses for the financial year | | – | – | – | – | – | 9,701 | – | 77,634 | 87,335 | 3,179 | 90,514 |
| Transfer to statutory reserve | | – | – | – | – | 37,926 | – | – | (37,926) | – | – | – |
| Shares repurchased held as treasury shares at cost | 26 | (635) | – | (999) | – | – | – | – | – | (999) | – | (999) |
| Issue of options | | – | – | – | – | – | – | 408 | – | 408 | – | 408 |
| Options exercised | 26 | 1,394 | 1,394 | – | 870 | – | – | (88) | – | 2,176 | – | 2,176 |
| Dividends in respect of the financial year ended: | | | | | | | | | | | | |
| – 31 July 2006 | | – | – | – | – | – | – | – | (9,140) | (9,140) | – | (9,140) |
| – 31 July 2007 | 39 | – | – | – | – | – | – | – | (9,294) | (9,294) | – | (9,294) |
| Dividend paid by a subsidiary to minority interests | | – | – | – | – | – | – | – | – | – | (1,354) | (1,354) |
| At 31 July 2007 | | 254,897 | 265,559 | (16,024) | 32,884 | 37,926 | 7,890 | 320 | 409,421 | 737,976 | 9,790 | 747,766 |

The accompanying notes form an integral part of the financial statements.

| | | Issued and fully paid ordinary shares of RM1 each | | | Non-distributable | | | Distri-butable | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number of shares '000 | Nominal value RM'000 | Treasury shares RM'000 | Share premium RM'000 | AFS reserve RM'000 | Options reserve RM'000 | Retained profits RM'000 | Total equity RM'000 |
| **Company** | | | | | | | | | |
| At 1 August 2007 | | **254,897** | **265,559** | **(16,024)** | **32,884** | **5,933** | **320** | **147,089** | **435,761** |
| Net change in fair value of securities AFS, net of tax | | **–** | **–** | **–** | **–** | **(5,042)** | **–** | **–** | **(5,042)** |
| Net gain transferred to income statement on disposal of securities AFS | | **–** | **–** | **–** | **–** | **(3,085)** | **–** | **–** | **(3,085)** |
| Net loss recognised directly in equity | | **–** | **–** | **–** | **–** | **(8,127)** | **–** | **–** | **(8,127)** |
| Profit for the financial year | | **–** | **–** | **–** | **–** | **–** | **–** | **32,908** | **32,908** |
| Total recognised income and expenses for the financial year | | **–** | **–** | **–** | **–** | **(8,127)** | **–** | **32,908** | **24,781** |
| Shares repurchased held as treasury shares at cost | 26 | **(5)** | **–** | **(9)** | **–** | **–** | **–** | **–** | **(9)** |
| Issue of options | | **–** | **–** | **–** | **–** | **–** | **154** | **–** | **154** |
| Options exercised | 26 | **286** | **286** | **–** | **206** | **–** | **(23)** | **–** | **469** |
| Options terminated | | **–** | **–** | **–** | **–** | **–** | **(20)** | **20** | **–** |
| Dividends in respect of the financial year ended: | | | | | | | | | |
| – 31 July 2007 | 39 | **–** | **–** | **–** | **–** | **–** | **–** | **(9,313)** | **(9,313)** |
| – 31 July 2008 | 39 | **–** | **–** | **–** | **–** | **–** | **–** | **(9,442)** | **(9,442)** |
| **At 31 July 2008** | | **255,178** | **265,845** | **(16,033)** | **33,090** | **(2,194)** | **431** | **161,262** | **442,401** |
| At 1 August 2006 | | 254,138 | 264,165 | (15,025) | 32,014 | 2,471 | – | 153,675 | 437,300 |
| Net change in fair value of securities AFS, net of tax | | – | – | – | – | 8,627 | – | – | 8,627 |
| Net gain transferred to income statement on disposal of securities AFS | | – | – | – | – | (5,165) | – | – | (5,165) |
| Net gain recognised directly in equity | | – | – | – | – | 3,462 | – | – | 3,462 |
| Profit for the financial year | | – | – | – | – | – | – | 11,848 | 11,848 |
| Total recognised income and expenses for the financial year | | – | – | – | – | 3,462 | – | 11,848 | 15,310 |
| Shares repurchased held as treasury shares at cost | 26 | (635) | – | (999) | – | – | – | – | (999) |
| Issue of options | | – | – | – | – | – | 408 | – | 408 |
| Options exercised | 26 | 1,394 | 1,394 | – | 870 | – | (88) | – | 2,176 |
| Dividends in respect of the financial year ended: | | | | | | | | | |
| – 31 July 2006 | | – | – | – | – | – | – | (9,140) | (9,140) |
| – 31 July 2007 | 39 | – | – | – | – | – | – | (9,294) | (9,294) |
| At 31 July 2007 | | 254,897 | 265,559 | (16,024) | 32,884 | 5,933 | 320 | 147,089 | 435,761 |

The accompanying notes form an integral part of the financial statements.

# Cash Flow Statements

For The Financial Year Ended 31 July 2008

| | Note | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Profit for the financial year | | **40,838** | 80,813 | **32,908** | 11,848 |
| Adjustments for: | | | | | |
| Property, plant and equipment: | | | | | |
| – depreciation | | **8,785** | 12,597 | **68** | – |
| – net gain on disposals | | **(199)** | (660) | **–** | – |
| – write off | | **232** | 296 | **–** | – |
| Investment properties: | | | | | |
| – depreciation | | **99** | 394 | **–** | – |
| – net gain on disposals | | **(386)** | – | **–** | – |
| – impairment loss | | **–** | 3,390 | **–** | – |
| Interests in jointly controlled entities: | | | | | |
| – impairment loss | | **–** | – | **1,304** | – |
| Net (gain)/loss arising from disposal of: | | | | | |
| – securities held-for-trading | | **(17,772)** | (16,511) | **–** | – |
| – derivatives | | **156** | – | **–** | – |
| – securities AFS | | **(2,314)** | (7,130) | **(2,561)** | (6,854) |
| Net gain on disposal of other investments | | **–** | (8) | **–** | – |
| Net unrealised loss/(gain) on: | | | | | |
| – securities held-for-trading | | **10,894** | (4,662) | **–** | – |
| – derivatives | | **8,191** | 68 | **–** | – |
| Net unrealised foreign exchange gain | | **(858)** | – | **–** | – |
| Amortisation of premium less accretion of discount | | **177** | 105 | **–** | – |
| Allowance for losses on loans, advances and financing | | **7,004** | 2,655 | **–** | – |
| Allowance/(Write back of allowance) for bad and doubtful debts on clients' balances and trade receivables | | **266** | (1,839) | **–** | – |
| Interest suspended | | **664** | 3,123 | **–** | – |
| Interest expense | | **62,115** | 11,750 | **6,211** | 6,635 |
| Interest income on securities AFS and securities held-to-maturity | | **(6,624)** | (2,785) | **–** | – |
| Dividends and income distributions | | **(4,192)** | (2,617) | **(53,313)** | (16,846) |
| Equity compensation benefits | | **154** | 408 | **–** | – |
| Share of results of jointly controlled entities | | **357** | 608 | **–** | – |
| Taxation | | **14,718** | 30,898 | **11,296** | 1,623 |
| | | **81,467** | 30,080 | **(36,995)** | (15,442) |
| | | **122,305** | 110,893 | **(4,087)** | (3,594) |

The accompanying notes form an integral part of the financial statements.

| | Note | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|---|
| (Increase)/Decrease in operating assets: | | | | | |
| Deposits and placements with banks and other financial institutions | | **(129,752)** | (15,000) | **–** | – |
| Securities held-for-trading | | **(1,210,039)** | 21,481 | **–** | – |
| Loans, advances and financing | | **(288,221)** | (80,331) | **–** | – |
| Clients' and brokers' balances | | **549,468** | (486,197) | **–** | – |
| Derivative assets | | **(238)** | (3) | **–** | – |
| Other assets | | **(18,909)** | (5,880) | **(319)** | 8,452 |
| Statutory deposits with Bank Negara Malaysia | | **(29,570)** | – | **–** | – |
| | | **(1,127,261)** | (565,930) | **(319)** | 8,452 |
| Increase/(Decrease) in operating liabilities: | | | | | |
| Deposits from customers | | **963,630** | 88,605 | **–** | – |
| Deposits and placements of banks and other financial institutions | | **951,062** | 174,502 | **–** | – |
| Clients' and brokers' balances | | **(373,915)** | 312,181 | **–** | – |
| Derivative liabilities | | **1,091** | 71 | **–** | – |
| Other liabilities | | **(22,415)** | 52,805 | **(3,356)** | 5,685 |
| | | **1,519,453** | 628,164 | **(3,356)** | 5,685 |
| Cash generated from/(used in) operations | | **514,497** | 173,127 | **(7,762)** | 10,543 |
| Interest paid | | **(46,420)** | (3,276) | **(101)** | (87) |
| Taxation (paid)/refunded | | **(26,134)** | (19,560) | **1,457** | – |
| **Net operating cash flow** | | **441,943** | 150,291 | **(6,406)** | 10,456 |
| **INVESTING ACTIVITIES** | | | | | |
| Property, plant and equipment: | | | | | |
| – proceeds from disposals | | **481** | 4,275 | **–** | – |
| – purchases | | **(8,138)** | (14,556) | **(696)** | – |
| Investment properties: | | | | | |
| – proceeds from disposal | 19(d) | **9,800** | – | **–** | – |
| Net disposal/(purchase) of securities AFS | | **101,948** | (33,905) | **6,535** | 1,962 |
| Interest received from securities AFS and securities held-to-maturity | | **6,624** | 2,785 | **–** | – |
| Dividends and income distributions received | | **3,786** | 1,226 | **39,509** | 12,474 |
| Reduction in equity contributions to subsidiaries | 16 | **–** | – | **562** | – |
| Acquisition of other investments | | **(100)** | – | **–** | – |
| Proceeds from disposal of other investments | | **–** | 33 | **–** | – |
| Additional investments in a jointly controlled entity: | | | | | |
| – redeemable convertible preference shares | | **–** | (442) | **–** | (442) |
| Contribution to the Government of Malaysia for a merchant bank licence | | **–** | (42,500) | **–** | – |
| **Net investing cash flow** | | **114,401** | (83,084) | **45,910** | 13,994 |

The accompanying notes form an integral part of the financial statements.

# Cash Flow Statements (cont'd)

For The Financial Year Ended 31 July 2008

| | Note | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|---|
| **FINANCING ACTIVITIES** | | | | | |
| Dividends paid to: | | | | | |
| – equity holders of the company | | **(18,755)** | (18,434) | **(18,755)** | (18,434) |
| – minority interests | | **(1,716)** | (1,354) | **–** | – |
| Interest paid on borrowings | | **(10,170)** | (7,256) | **(6,068)** | (6,618) |
| Net drawdown of borrowings | | **144,000** | 18,000 | **–** | – |
| Subordinated term loan released to a subsidiary | | **–** | – | **(5,000)** | – |
| Issue of shares | | **469** | 2,176 | **469** | 2,176 |
| Shares repurchased | | **(9)** | (999) | **(9)** | (999) |
| **Net financing cash flow** | | **113,819** | (7,867) | **(29,363)** | (23,875) |
| **Net change in cash and cash equivalents** | | **670,163** | 59,340 | **10,141** | 575 |
| **Cash and cash equivalents at beginning of the financial year** | | **324,942** | 265,602 | **6,708** | 6,133 |
| **Cash and cash equivalents at end of the financial year** | 40 | **995,105** | 324,942 | **16,849** | 6,708 |

The accompanying notes form an integral part of the financial statements.

# Notes to the Financial Statements

For The Financial Year Ended 31 July 2008



## 1. General information

The principal activity of the company during the financial year is that of investment holding. The principal activities of the subsidiaries during the financial year are as set out in note 16 to the financial statements. There have been no significant changes in the nature of these activities during the financial year other than those disclosed in note 16 to the financial statements.

The company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

The company's registered office and principal place of business is located at:

Level 8 Wisma Sri Pinang
60 Green Hall
10200 Penang

## 2. Basis of preparation of the financial statements

The financial statements of the group and of the company have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies in note 3 to the financial statements and are in accordance with the Financial Reporting Standards in Malaysia, Bank Negara Malaysia ("BNM") Guidelines and the provisions of the Companies Act, 1965.

Certain comparative figures have been restated to conform with current financial year's presentation as disclosed in note 49 to the financial statements.

The preparation of financial statements in conformity with the Financial Reporting Standards in Malaysia, BNM Guidelines and the provisions of the Companies Act, 1965 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 income and expenses during the reported financial year. It also requires directors to exercise their judgement in the process of applying the accounting policies of the group and of the company. Although these estimates and assumptions are based on the management and directors' best knowledge of current events and actions, actual results may differ from those estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity are disclosed in note 4 to the financial statements.

## 2. Basis of preparation of the financial statements (cont'd)

### (a) Revised Financial Reporting Standards (FRSs) and interpretations adopted

During the financial year, the group and the company adopted the following revised FRSs and interpretations issued by MASB that are relevant and effective for financial statements commencing 1 August 2007:

| | |
|---|---|
| • FRS 107 | Cash Flow Statements |
| • FRS 112 | Income Taxes |
| • FRS 117 | Leases |
| • FRS 118 | Revenue |
| • FRS 124 | Related Party Disclosures |
| • FRS 134 | Interim Financial Reporting |
| • FRS 137 | Provisions, Contingent Liabilities and Contingent Assets |
| • IC Interpretation 8 | Scope of FRS 2, Share-based Payment |

The above FRSs require retrospective application and the IC Interpretation 8 requires retrospective application subject to the transitional provision of FRS 2. FRS 2 requires retrospective application for all equity instruments granted after 31 December 2004 and not vested at 1 August 2007.

Other than FRS 124 which enhanced the related party disclosure in note 41 to the financial statements, the adoption of the FRSs and interpretations does not have any significant financial impact on the financial statements of the group and of the company.

### (b) New standards, amendments to published standards and interpretations which are relevant to the group and the company and have not been early adopted

| | |
|---|---|
| • FRS 139 | Financial Instruments: Recognition and Measurement<br>(Effective for accounting period beginning on or after 1 January 2010)<br>This new standard 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 group and the company will apply this standard when effective. Nevertheless, the accounting policies of the group and of the company incorporate the requirements of the Revised Guidelines on Financial Reporting for Licensed Institutions issued by BNM (BNM/GP8) which include selected principles of FRS 139 on recognition and measurement of financial assets, financial liabilities and derivative financial instruments. The group and the company have applied the transitional provision in FRS 139 which exempts entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of the group and of the company. |

## 3. Summary of significant accounting policies

All significant accounting policies set out below are consistent with those applied in the previous financial year unless otherwise indicated.

### (a) Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the company and all its subsidiaries made up to the end of the financial year. A subsidiary is a company in which the group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included from the date of acquisition or 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 group's share of the fair value of 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.

Inter-company transactions, balances and unrealised gain or loss arising from inter-company transactions are eliminated and the consolidated financial statements reflect external transactions only. Accounting policies of subsidiaries have been changed where necessary, to ensure consistency with the policies adopted by the group.

The gain or loss on disposal of a subsidiary, which is the difference between net disposal proceeds and the group's share of its net assets as of the date of disposal is recognised in the consolidated income statement.

Minority interests represent that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the group. It is measured at the minorities' share of the fair value of the subsidiary's identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since that date.

### (b) Investments in subsidiaries

Investments in subsidiaries, which are eliminated on consolidation, are stated at cost less accumulated impairment losses.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(n) to the financial statements.

### (c) Interests in jointly controlled entities

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the group with one or more parties. The group's interests in jointly controlled entities comprise the carrying amount of investments in the ordinary shares of jointly controlled entities and other long term interests which in substance, form part of the group's net investment in jointly controlled entities.

The group's interests in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting. Equity accounting involves recognising the group's share of post acquisition results of jointly controlled entities in the income statement and its share of post-acquisition movements within reserves in reserves. The cumulative post-acquisition movements are adjusted against cost of the investment and include goodwill on acquisition.

When the group's share of losses in a jointly controlled entities equals or exceeds its interests in the jointly controlled entity, the group's interests are reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(n) to the financial statements.

**3. Summary of significant accounting policies (cont'd)**

**(d) Intangible assets**

***(i) Goodwill***

Goodwill represents the excess of the fair values of purchase consideration of subsidiaries or businesses, including operating rights acquired over the group's share of fair value of their separable net assets at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is tested for impairment annually. Goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose for the purpose of impairment testing.

***(ii) Other intangible assets***

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, when it is probable that future economic benefits attributable to the assets will flow to the group and the cost can be measured reliably.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are stated at cost less accumulated impairment losses and tested for impairment annually. Intangible assets are allocated to CGUs or groups of CGUs that are expected to benefit from synergies of business activities for the purpose of impairment testing.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(n) to the financial statements.

**(e) Securities portfolio**

The group and the company classify the securities portfolio into the following categories: securities held-for-trading, securities held-to-maturity and securities available-for-sale ("AFS"). Classification of securities is determined at initial recognition.

***(i) Securities held-for-trading***

Securities held-for-trading are securities acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held-for-trading unless they are designated as hedges.

Securities held-for-trading are stated at fair value at initial recognition. Any gain or loss arising from a change in fair value or arising from derecognition of such securities is recognised in the income statement.

***(ii) Securities held-to-maturity***

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturities that the group and the company have the positive intent and ability to hold to maturity. Securities held-to-maturity are initially stated at fair value and subsequently measured at amortised cost using the effective interest method. Any gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process.

If more than an insignificant amount of the securities held-to-maturity portfolio is sold or reclassified before maturity (other than under those conditions specified in BNM/GP8) during the current financial year or the last two preceding financial years, the entire category would be tainted and reclassified as securities AFS at fair value. The difference between the carrying value and fair value of the securities at the date of reclassification is recognised directly in equity.

***(iii) Securities AFS***

Securities AFS are securities that are not classified as securities held-for-trading or securities held-to-maturity. These securities are initially stated at fair value except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, will be stated at cost.

Any gain or loss arising from the change in fair value is recognised directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When securities AFS are derecognised, the cumulative gains or losses previously recognised in equity shall be transferred to the income statement.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(f) to the financial statements.

## 3. Summary of significant accounting policies (cont'd)

### (f) Impairment of securities

The group and the company assess at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment loss is 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 asset (a "loss event") and that loss event (or events) 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 objective evidence that an impairment loss on securities held-to-maturity carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If the securities held-to-maturity has variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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. For securities held-to-maturity stated at cost, no reversal of impairment loss is allowed when the amount of impairment loss decreases.

#### *(ii) Securities carried at fair value*

When a decline in fair value of securities AFS has been recognised directly in equity and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the income statement even though the security has not been derecognised. The amount of cumulative loss is the difference between the acquisition price (net of principal repayment and amortisation) and current fair value, less any impairment loss on that security previously recognised in the income statement.

If, in subsequent periods, the fair value of a debt instrument classified as securities AFS increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement. For equity instruments, no reversal of impairment loss through the income statement is allowed when there is an increase in fair value of the equity instrument in subsequent period.

### (g) 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 remeasured 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. Derivative financial instruments are presented separately in the balance sheets as assets (positive changes in fair values) and liabilities (negative changes in fair values). Unrealised gains or losses arising from changes in the fair value of the derivatives are recognised immediately in the income statement.

## 3. Summary of significant accounting policies (cont'd)

### (h) Loans, advances and financing

Loans, advances and financing are carried at their outstanding principal and interest, net of interest-in-suspense, general and specific allowances for losses on loans, advances and financing.

#### *(i) Share margin financing*

The policies on identification of non-performing accounts, specific allowance for bad and doubtful debts, maintenance of a general allowance account and suspension of interest are in accordance with the Rules of Bursa Malaysia Securities Berhad ("Rules of Bursa Securities").

Specific allowance is made for bad and doubtful debts which have been individually reviewed and specifically identified as bad or doubtful, after deducting the amount of interest-in-suspense, the value of collateral held and the deposits of and all amounts due to the dealer's representatives.

A general allowance based on a percentage of its total trade receivables (as defined under the Rules of Bursa Securities), after deducting the amount of specific allowance and interest-in-suspense is also made to cover possible losses, which have not been specifically identified.

Interest is suspended and credited to the interest-in-suspense account when an account is classified as non-performing as defined under the Rules of Bursa Securities.

#### *(ii) Loans and advances*

Specific allowance is made for loans and advances which have been individually reviewed and specifically identified as bad, doubtful or substandard.

A general allowance based on a percentage of the loans and advances portfolio, net of specific allowance for bad and doubtful debts, is also made to cover possible losses, which are not specifically identified.

The investment banking subsidiary's allowance for non-performing loans and advances made is in conformity with the minimum requirements of the Guidelines on the Suspension of Interest on Non-Performing Loan and Provision for Bad and Doubtful Debts issued by BNM (BNM/GP3), which is deemed as in conformity with the requirement on the allowance for loan impairment under BNM/GP8. BNM has granted indulgence to the investment banking subsidiary from complying with the requirement on the impairment of loans under the revised BNM/GP8 if the allowance for non-performing loans and advances is computed based on BNM/GP3 requirements.

The allowances for bad and doubtful debts of the moneylending subsidiary follow the general guidelines as set out in BNM/GP3 in so far as it relates to the parameters for periods of default and provisioning rates. In addition, where there are indications of deteriorating financial conditions of the borrowers, a loan account may be classified as non-performing and allowance for bad and doubtful debts will be made at management's discretion.

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

### (i) Clients' and brokers' balances

Clients' and brokers' balances are classified as performing or non-performing in accordance with the Rules of Bursa Securities. Non-performing clients' and brokers' balances are stated net of interest-in-suspense.

Specific allowance is made for bad and doubtful debts which have been individually reviewed and specifically identified as bad or doubtful, after deducting the amount of interest-in-suspense, the value of collateral held and the deposits of and all amounts due to the dealer's representatives.

A general allowance based on a percentage of its total trade receivables (as defined under the Rules of Bursa Securities), after deducting the amount of specific allowance and interest-in-suspense is also made to cover possible losses, which have not been specifically identified.

Interest is suspended and credited to the interest-in-suspense account when an account is classified as non-performing as defined under the Rules of Bursa Securities.

The policies on identification of non-performing accounts, specific allowance for bad and doubtful debts, maintenance of a general allowance account and suspension of interest are in accordance with the Rules of Bursa Securities.

## 3. Summary of significant accounting policies (cont'd)

### (j) Other receivables

Other receivables are stated at anticipated realisable values. Known bad debts are written off and specific allowance is made for any debts which are considered doubtful based on management's assessment of recoverability of debts. Doubtful debts which have subsequently become bad and for which allowance had been made are written off against the allowance.

### (k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Capital work in progress is not depreciated. Depreciation of assets under capital work in progress commences when the assets are ready for their intended use and transferred to the respective classes of assets. Depreciation of other property, plant and equipment is calculated to write off the cost of each property, plant and equipment over its expected useful life on the straight line basis. The principal annual depreciation rates are as follows:

| | % |
|---|---|
| Apartments, buildings and office units | 2 |
| Furniture, fixtures and fittings | 10 – 20 |
| Office equipment | 20 |
| Computer equipment | 20 – $33^1/_3$ |
| Motor vehicles | 20 |
| Renovations | 10 – 20 |

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amounts of assets and are included in the income statement.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(n) to the financial statements.

### (l) Investment properties

Investment properties are properties which the group holds with the intention to earn rentals or for capital appreciation or both, and are not occupied by the group. These include land held for a currently undetermined future use. Such properties are initially recognised at cost including any directly attributable expenditure. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Freehold land is not depreciated. Apartments, buildings and office units are depreciated at a principal annual rate of 2% on the straight line basis to write off the cost of each asset over its expected useful life.

Gains or losses on disposals of investment properties are determined by comparing proceeds with carrying amounts of assets and are included in the income statement.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(n) to the financial statements.

## 3. Summary of significant accounting policies (cont'd)

### (m) Other investments

Other investments, which comprise transferable corporate club memberships, investments in gold coins and commemorative notes, are stated at cost.

On disposal of an investment, the gain or loss representing the difference between the net disposal proceeds and the carrying amount of investment is credited or charged to the income statement.

The accounting policy on the recognition and measurement of impairment losses is disclosed in note 3(n) to the financial statements.

### (n) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation/depreciation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Any impairment loss is charged to the income statement in the period in which it arises.

Assets, other than goodwill, of which an impairment loss is recognised in prior financial years, are reviewed for possible reversal of the impairment at each balance sheet date. Reversal of impairment loss is recognised in the income statement to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised. No reversal of impairment loss on goodwill is allowed in a subsequent period.

### (o) Income taxes

Current tax expense is calculated at the current tax rate based on taxable profits.

Deferred tax is provided 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 unless the temporary differences arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are determined using tax rates 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.

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

Deferred tax assets and liabilities relating to the fair value re-measurement of securities AFS are credited or charged directly to equity.

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 tax relate to the same tax authority.

### (p) Provisions

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

### (q) Financial instruments

Financial instruments are recognised in the balance sheet when the group or the company has become a party to the contractual provisions of the instrument. Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to financial instruments classified as financial assets and liabilities, are reported in the income statement as income or expense. Distributions to holders of financial instruments classified as equity are debited directly to equity.

Financial instruments are offset and the net amount presented in the balance sheet when the group or the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

## 3. Summary of significant accounting policies (cont'd)

### (r) Foreign currencies

#### *(i) Functional and presentation currency*

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

#### *(ii) Transactions and balances*

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated into Ringgit Malaysia at the rates of exchange ruling on that date. All gains and losses on foreign exchange are included in the income statement.

### (s) Income recognition

#### *(i) Interest income*

Interest income is recognised on an accrual basis.

Interest accrued and recognised as income prior to the date of a loan account or clients' balances arising from stockbroking business are classified as non-performing shall be reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account or interest-in-suspense in the balance sheet. Subsequently, interest earned on non-performing accounts is recognised on a cash basis.

Interest income from securities portfolio is recognised on an accrual basis using the effective interest method. The interest income includes coupons earned and accretion of discount, net of amortisation of premium of securities.

#### *(ii) Fees and other income*

Brokerage is recognised when contracts are executed.

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

Fees earned from management of corporate funds are recognised on an accrual basis. Initial service charge and fees earned from management of unit trust funds are recognised as income on an accrual basis at the rates provided for in the prospectus of the respective unit trust funds managed by a subsidiary.

Underwriting commission and placement income are recognised when all conditions precedent are fulfilled.

Rollover fee is recognised upon the rollover of specific contracts under share margin financing or upon rollover of loans.

Loan and debt security arrangement fees and commission are recognised as income when conditions precedent are fulfilled.

Portfolio management, commitment and guarantee fees are recognised as income based on time apportionment.

Dividend income from subsidiaries is recognised when the right to receive payment is established while dividend income from securities portfolio is recognised on a receipt basis.

Rental income and all other income are recognised on an accrual basis.

### (t) Interest expense

Interest expense is recognised on an accrual basis. Other related costs on borrowings are expensed when incurred.

## 3. Summary of significant accounting policies (cont'd)

### (u) Employee benefits

#### *(i) Short term employee benefits*

Short term employee benefits are accrued in the financial year in which the associated services are rendered by employees of the group and of the company.

#### *(ii) Post-employment employee benefits*

The contributions by the group and the company to the defined contribution plan, the Employees Provident Fund, are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the group and the company have no further payment obligations.

#### *(iii) Equity compensation benefits*

The company's Executive Share Option Scheme ("ESOS") for eligible executives of the group is an equity-settled share-based compensation plan. Details of the company's ESOS are as disclosed in note 26 to the financial statements.

Employee services received in exchange for the grant of the share options, which are fully vested on the grant dates, are recognised as an expense in the income statement, by reference to the fair value of the share options at dates of grant, with a corresponding increase in equity.

Proceeds received by the company arising from options exercised are credited to share capital and share premium. Fair value of options exercised is transferred from options reserve to share premium. Fair value of options terminated is transferred from options reserve to retained profits.

### (v) Operating lease

Leases of assets where substantially all the risks and benefits are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on the straight line basis over the period of the lease.

### (w) Shares repurchased

Shares repurchased are accounted for using the treasury stock method. The shares repurchased are held as treasury shares at cost and set off against shareholders' equity until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in the equity.

### (x) Dividends

Dividends on ordinary shares are recognised as liabilities when approved for payment.

### (y) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and short term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (z) Contingent liabilities and contingent assets

The group and the company do 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 and the company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

## 3. Summary of significant accounting policies (cont'd)

### (aa) Segment reporting

Segment reporting is presented for enhanced assessment of the group's risk and return. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those components.

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

## 4. Critical accounting estimates and judgement

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

### (a) Allowance for losses on bad and doubtful debts

The group makes allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM and Bursa Securities guidelines, judgement is made about the future and other key factors in respect of the recovery of the debts. Among the factors considered are the group's aggregate exposure to the borrowers, net realisable value of the underlying collateral and capacity to generate sufficient cash flow to service debt obligations.

### (b) Impairment of assets

#### *(i) Intangible assets*

The group tests intangible assets that have an indefinite useful life for impairment annually to ensure that the carrying amounts of the CGUs or groups of CGUs to which intangible assets are allocated do not exceed their recoverable amounts. Recoverable amounts are determined based on the present value of the estimated future cash flows expected to arise from continuing operations. In arriving at the recoverable amounts, management exercises judgement in estimating the future cash flows, growth rate and discount rate.

#### *(ii) Other assets*

The group reviews assets that are subject to amortisation/depreciation for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverable amounts are determined based on the present value of the estimated future cash flows of the assets. In arriving at the recoverable amounts, management exercises judgement in estimating the future cash flows and discount rate.

### (c) Fair value of financial instruments

Fair value of financial instruments is determined by reference to quoted market price of the instrument or by using a valuation model, which is based on independently sourced observable or implied market data, mainly interest rate yield curves, recent market transactions, foreign exchange rates and market volatility. Changes in the estimates or assumptions in respect of the parameters used could affect the fair value of the financial instruments reported in the financial statements.

## 5. Cash and short term funds

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Cash and balances with banks and other financial institutions | **74,375** | 123,824 | **695** | 390 |
| Money at call and deposit placements maturing within one month | **1,182,600** | 468,895 | **16,154** | 6,318 |
| | **1,256,975** | 592,719 | **16,849** | 6,708 |
| Included in cash and balances with banks and other financial institutions are: | | | | |
| Monies held in trust for clients | **1,711** | 5,517 | **–** | – |
| Dividends received on behalf of customers by certain subsidiaries | **964** | 1,311 | **–** | – |
| | **2,675** | 6,828 | **–** | – |
| Included in money at call and deposit placements maturing within one month are: | | | | |
| Monies held in trust for clients and dealer's representatives | **259,195** | 260,949 | **–** | – |
| | **261,870** | 267,777 | **–** | – |

Included in cash and short term funds is RM13,840,000 (2007: RM6,321,000) held under funds under management placed by the company with a subsidiary, HwangDBS Investment Management Berhad ("HDBSIM"), which is given the discretionary powers within certain guidelines to invest the funds (note 13).

## 6. Deposits and placements with banks and other financial institutions

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| Licensed banks | **117,773** | – |
| Licensed investment banks | **30,000** | – |
| Bank Negara Malaysia | **–** | 15,000 |
| | **147,773** | 15,000 |
| Included in deposits with licensed banks are: | | |
| Monies held in trust for clients | **2,184** | – |

## 7. Securities held-for-trading

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| **At fair value** | | |
| **Quoted:** | | |
| In Malaysia | | |
| Shares, warrants and REITs | **19,709** | 5,604 |
| Loan stocks | **1,741** | 1,950 |
| Unit trusts | **872** | 4,995 |
| | **22,322** | 12,549 |
| **Unquoted:** | | |
| In Malaysia | | |
| Negotiable instruments of deposits | **219,989** | – |
| Bankers' acceptances | **321,235** | – |
| Private and Islamic debt securities | **484,638** | – |
| Outside Malaysia | | |
| Private debt securities | **181,075** | – |
| | **1,229,259** | 12,549 |

## 8. Securities available-for-sale ("AFS")

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Quoted:** | | | | |
| **At fair value** | | | | |
| In Malaysia | | | | |
| Shares | **15,777** | 29,850 | **15,777** | 27,878 |
| Unit trusts | **6,894** | 10,054 | **–** | – |
| | **22,671** | 39,904 | **15,777** | 27,878 |
| **Unquoted:** | | | | |
| **At fair value** | | | | |
| In Malaysia | | | | |
| Malaysian Government Securities | **10,000** | 10,105 | **–** | – |
| Malaysian Government Treasury Bills | **–** | 29,883 | **–** | – |
| Bankers' acceptances | **–** | 63,008 | **–** | – |
| **At cost** | | | | |
| In Malaysia | | | | |
| Shares | **4,490** | 4,490 | **490** | 490 |
| | **37,161** | 147,390 | **16,267** | 28,368 |
| Accumulated impairment loss | **(4,000)** | (4,000) | – | – |
| | **33,161** | 143,390 | **16,267** | 28,368 |

## 8. Securities available-for-sale ("AFS") (cont'd)

Included in securities AFS are:

(i) quoted shares amounting to RM15,777,000 (2007: RM27,878,000) held under funds under management placed by the company with a subsidiary, HwangDBS Investment Management Berhad ("HDBSIM") (note 13).

(ii) investments in unit trust funds of the group managed by a subsidiary, HDBSIM, at a carrying amount of RM5,584,000 (2007: RM8,365,000) as at the balance sheet date.

## 9. Loans, advances and financing

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| **(a) By type** | | |
| Term loans | | |
| – bridging loans | **73,980** | 10,052 |
| – syndicated term loans | **47,257** | – |
| – other term loans | **382,140** | 85,576 |
| Share margin financing | **156,783** | 216,513 |
| Other financing | **30,000** | – |
| | **690,160** | 312,141 |
| Unearned interest | **(111,959)** | (12,626) |
| | **578,201** | 299,515 |
| Allowance for losses on loans, advances and financing: | | |
| – general | **(7,819)** | (3,262) |
| – specific | **(5,050)** | (11,738) |
| Net loans, advances and financing | **565,332** | 284,515 |
| **(b) By maturity structure** | | |
| Within 1 year | **387,933** | 285,677 |
| 1 year to 3 years | **59,935** | 187 |
| 3 years to 5 years | **8,602** | 854 |
| Over 5 years | **121,731** | 12,797 |
| | **578,201** | 299,515 |
| **(c) By type of customer** | | |
| Domestic business enterprises | | |
| – others | **224,679** | 80,389 |
| Individuals | **206,052** | 200,603 |
| Other domestic entities | **133,893** | 13,846 |
| Foreign entities | **13,577** | 4,677 |
| | **578,201** | 299,515 |

## 9. Loans, advances and financing (cont'd)

| | Group 2008 RM'000 | Group 2007 RM'000 |
|---|---|---|
| **(d) By interest rate sensitivity** | | |
| Fixed rate | | |
| – other fixed rate loans/financing | **387,871** | 289,463 |
| Variable rate | | |
| – cost-plus | **190,330** | 10,052 |
| | **578,201** | 299,515 |
| **(e) By purpose** | | |
| Purchase of landed properties: | | |
| – non-residential | **29,757** | – |
| Purchase of securities | **304,621** | 253,144 |
| Working capital | **49,796** | 16,588 |
| Personal use | **164,928** | 29,783 |
| Others | **29,099** | – |
| | **578,201** | 299,515 |
| **(f) Non-performing loans, advances and financing ("NPL") by purpose** | | |
| Purchase of securities | **11,993** | 21,183 |
| Working capital | **959** | 959 |
| Personal use | **700** | – |
| | **13,652** | 22,142 |
| **(g) Movements in NPLs** | | |
| At beginning of the financial year | **22,142** | 25,891 |
| Classified as non-performing | **6,151** | 36,363 |
| Reclassified as performing | **(892)** | (33,671) |
| Amount recovered | **(4,614)** | (3,713) |
| Amount written off | **(9,135)** | (2,728) |
| At end of the financial year | **13,652** | 22,142 |
| Less: Specific allowance | **(5,050)** | (11,738) |
| Net NPLs | **8,602** | 10,404 |
| Net NPLs as a % of gross loans, advances and financing less specific allowance | **1.5%** | 3.6% |

## 9. Loans, advances and financing (cont'd)

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| **(h) Movements in allowance for losses on loans, advances and financing** | | |
| **General allowance** | | |
| At beginning of the financial year | **3,262** | 1,479 |
| Allowance made | **4,557** | 1,783 |
| At end of the financial year | **7,819** | 3,262 |
| As a % of gross loans, advances and financing less specific allowance | **1.4%** | 1.1% |
| **Specific allowance** | | |
| At beginning of the financial year | **11,738** | 13,594 |
| Allowance made | **2,552** | 2,768 |
| Amount written back | **(375)** | (1,896) |
| Amount written off | **(8,865)** | (2,728) |
| At end of the financial year | **5,050** | 11,738 |

## 10. Clients' and brokers' balances

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| Amounts due from clients | **127,435** | 481,481 |
| Allowance for bad and doubtful debts: | | |
| – general | **(59)** | (129) |
| – specific | **(1,212)** | (12,401) |
| Interest-in-suspense | **(122)** | (1,369) |
| | **126,042** | 467,582 |
| Amounts due from brokers | **36,067** | 244,525 |
| | **162,109** | 712,107 |

Clients' and brokers' balances represent the amounts receivable in respect of outstanding contracts and contra losses.

The credit terms in respect of clients' and brokers' balances are based on the agreements entered into between the investment banking subsidiary and its clients and are in accordance with the Rules of Bursa Securities.

## 10. Clients' and brokers' balances (cont'd)

Movements in the allowance for bad and doubtful debts and interest-in-suspense made in accordance with the Rules of Bursa Securities are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| **General allowance for bad and doubtful debts** | | |
| At beginning of the financial year | **129** | 108 |
| Allowance (written back)/made | **(70)** | 21 |
| At end of the financial year | **59** | 129 |
| **Specific allowance for bad and doubtful debts** | | |
| At beginning of the financial year | **12,401** | 25,633 |
| Allowance made | **1,017** | 701 |
| Amounts written back | **(904)** | (3,010) |
| Amounts written off | **(11,302)** | (10,923) |
| At end of the financial year | **1,212** | 12,401 |
| **Interest-in-suspense** | | |
| At beginning of the financial year | **1,369** | 8,420 |
| Interest suspended | **60** | 155 |
| Amounts written back | **(44)** | (22) |
| Amounts written off | **(1,263)** | (7,184) |
| At end of the financial year | **122** | 1,369 |
| **Non-performing accounts** | | |
| Outstanding balances, classified as: | | |
| – Doubtful | **9** | 17 |
| – Bad | **1,207** | 12,393 |
| | **1,216** | 12,410 |

The disclosure requirements under Rule 1104.3(1) of the Rules of Bursa Securities have been complied with.

## 11. Derivative financial instruments

| | Group 2008 RM'000 | Group 2007 RM'000 |
|---|---|---|
| Derivative assets | **14,955** | 3 |
| Derivative liabilities | **(24,171)** | (71) |
| | **(9,216)** | (68) |

| | Notional amount RM'000 | Fair value Derivative assets RM'000 | Fair value Derivative liabilities RM'000 |
|---|---|---|---|
| **2008** | | | |
| Foreign exchange related contracts | | | |
| – Currency forwards | **6,079** | **–** | **(3)** |
| – Currency swaps | **97,826** | **168** | **(181)** |
| – Cross currency interest rate swaps | **319,950** | **4** | **(5,768)** |
| Interest rate related contracts | | | |
| – Interest rate swaps | **1,835,970** | **14,653** | **(18,089)** |
| Equity related contracts | | | |
| – Options | **356** | **130** | **(130)** |
| | **2,260,181** | **14,955** | **(24,171)** |
| **2007** | | | |
| Foreign exchange related contracts | | | |
| – Currency forwards | 17,149 | 3 | (71) |

As at 31 July 2008, the fair values of the following outstanding futures contracts are included in Other receivables, deposits and prepayments (note 12):

| | Notional amount RM'000 | Fair value Derivative assets RM'000 | Fair value Derivative liabilities RM'000 |
|---|---|---|---|
| Interest rate related contracts | | | |
| – Futures | 8,068,000 | 3,101 | (7,183) |

## 12. Other assets

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2008** | 2007 | **2008** | 2007 |
| | | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Trade receivables | (a) | **8,481** | 9,715 | **–** | – |
| Interest receivable | | **13,130** | 434 | **–** | – |
| Statutory deposit | (b) | **150** | 150 | **–** | – |
| Amount due from a subsidiary | 41(c) | **–** | – | **30,731** | 29,678 |
| Subordinated term loans to a subsidiary | 41(c) | **–** | – | **10,000** | 5,000 |
| Clearing Guarantee Fund | (c) | **1,870** | 1,816 | **–** | – |
| Clearing Fund | (d) | **1,000** | 1,000 | **–** | – |
| Other receivables, deposits and prepayments | (e) | **17,231** | 9,838 | **263** | 997 |
| Other investments | (f) | **2,906** | 2,806 | **–** | – |
| | | **44,768** | 25,759 | **40,994** | 35,675 |

(a) Trade receivables are stated net of allowance for doubtful debts of RM542,000 (2007: RM319,000).

(b) The statutory deposit is placed by a subsidiary with the Securities Commission ("SC") in compliance with a requirement of fund manager's licence.

(c) The contributions to Clearing Guarantee Fund represent interest-bearing contributions made by the investment banking subsidiary as a trading clearing participant in accordance with Rules of Bursa Malaysia Securities Clearing ("Bursa Clearing") to a fund maintained by Bursa Clearing.

(d) The contributions to Clearing Fund represent interest-bearing contributions made by a subsidiary in accordance with the Business Rules of Bursa Malaysia Derivatives Clearing Berhad.

(e) Included in other receivables, deposits and prepayments of the group as at the balance sheet date is an amount of RM4,000,000 (2007: RM4,000,000) paid by the investment banking subsidiary for a portion of the tax credits in connection with the acquisition of the business of Taiping Securities Sdn. Bhd. (Special Administrators Appointed), now known as Taiping Recovery Sdn. Bhd. (In liquidation) in a prior financial year. Details of the tax credits scheme are disclosed in note 37 to the financial statements.

(f) Other investments of the group comprised the following:

| | **2008** | 2007 |
|---|---|---|
| | **RM'000** | RM'000 |
| **At cost** | | |
| Unquoted preference shares in Bursa Malaysia Derivatives Berhad: | | |
| – "A" class (Equity Financial Participant) | **1,500** | 1,500 |
| – "B" class (Non-equity Financial Participant) | **500** | 500 |
| – "C" class (Commodity Participant) | **100** | 100 |
| Transferable corporate club memberships | **245** | 145 |
| Investments in gold coins and Hong Kong 1997 commemorative notes | **561** | 561 |
| | **2,906** | 2,806 |

## 13. Funds under management

**Group and Company**

The company places funds with a subsidiary, HwangDBS Investment Management Berhad which is given discretionary powers within certain guidelines to invest the funds. Funds under management as at the balance sheet date are represented by:

| | **2008 RM'000** | 2007 RM'000 |
|---|---|---|
| Cash and short term funds (note 5) | | |
| – Cash and balances with banks and other financial institutions | **14** | 3 |
| – Money at call and deposit placements maturing within one month | **13,826** | 6,318 |
| Securities AFS (note 8) | **15,777** | 27,878 |
| Other assets | | |
| – Amount due from a broker | **163** | – |
| – Others | **1** | 1 |
| | **29,781** | 34,200 |

## 14. Statutory deposits with Bank Negara Malaysia

**Group**

The non-interest bearing statutory deposits are maintained by the investment banking subsidiary with Bank Negara Malaysia ("BNM") in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined as set percentages of total eligible liabilities.

## 15. Deferred tax assets/(liabilities)

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2008 RM'000** | 2007 RM'000 | **2008 RM'000** | 2007 RM'000 |
| **Subject to income tax:** | | | | |
| Deferred tax assets | **2,918** | 1,051 | **–** | – |
| Deferred tax liabilities | **(596)** | (543) | **(2)** | – |
| | **2,322** | 508 | **(2)** | – |

The statutory income tax rate is reduced to 25% effective from year of assessment 2009 onwards (2007: 26% for year of assessment 2008). The computation of deferred tax as at 31 July 2008 has reflected this change.

## 15. Deferred tax assets/(liabilities) (cont'd)

Movements in deferred tax during the financial year are as follows:

| | Excess of capital allowance over depreciation RM'000 | Allowances for bad and doubtful debts RM'000 | Accrued expenses RM'000 | Unrealised (gain)/ loss on securities AFS RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2008** | | | | | | |
| At beginning of the financial year | **(2,216)** | **887** | **2,703** | **(877)** | **11** | **508** |
| Transfer from/(to) income statement | **(303)** | **1,250** | **98** | **–** | **(1)** | **1,044** |
| Transfer from/(to) equity | **–** | **–** | **–** | **781** | **(11)** | **770** |
| At end of the financial year | **(2,519)** | **2,137** | **2,801** | **(96)** | **(1)** | **2,322** |
| **2007** | | | | | | |
| At beginning of the financial year | (2,590) | 444 | 1,031 | 362 | 18 | (735) |
| Transfer from/(to) income statement | 374 | 443 | 1,672 | – | (7) | 2,482 |
| Transfer to equity | – | – | – | (1,239) | – | (1,239) |
| At end of the financial year | (2,216) | 887 | 2,703 | (877) | 11 | 508 |

| | Excess of capital allowance over depreciation RM'000 |
|---|---|
| **Company** | |
| **2008** | |
| At beginning of the financial year | **–** |
| Transfer to income statement | **(2)** |
| At end of the financial year | **(2)** |

Included in deferred tax assets of the group as at the balance sheet date is an amount of RM1,043,000 (2007: RM226,000) in respect of a subsidiary which incurred losses in the previous financial year mainly due to alignment of loan provisioning to follow the general principles of BNM/GP3. It is probable that future taxable profit will be available against which the temporary differences can be utilised.

The deductible temporary differences, unutilised tax losses and capital allowances, which have no expiry date and for which no deferred tax assets are recognised in the financial statements are as follows:

| | Group | |
|---|---|---|
| | **2008 RM'000** | 2007 RM'000 |
| Tax losses | **884** | 920 |
| Capital allowances | **179** | 56 |
| Other deductible temporary differences | **3,113** | 4,036 |
| | **4,176** | 5,012 |

## 16. Investments in subsidiaries

**Company**

| | **2008** | 2007 |
|---|---|---|
| | **RM'000** | RM'000 |
| Unquoted shares, at cost | **516,271** | 516,271 |
| Equity contributions to subsidiaries | **–** | 408 |
| | **516,271** | 516,679 |

The company's equity contributions to subsidiaries as at the previous financial year end were in respect of its share options granted to the eligible employees of the group and credited to options reserve. During the financial year, the amount of the company's total equity contributions to the subsidiaries in respect of the share options granted amounting to RM562,000 were repaid by the subsidiaries.

The subsidiaries which are all incorporated in Malaysia are:

| | **Equity interest** | | |
|---|---|---|---|
| **Name of subsidiary** | **2008** | 2007 | **Principal activity** |
| | **%** | % | |
| **Direct subsidiaries:** | | | |
| HwangDBS Investment Bank Berhad | **100** | 100 | Investment banking, stockbroking and related financial services |
| HDM Futures Sdn. Bhd. | **100** | 100 | Licensed futures broker dealing in options and futures |
| HDM Properties Sdn. Bhd. | **100** | 100 | Letting of properties and investment holding |
| HDM Management Services Sdn. Bhd. | **100** | 100 | Dormant |
| HDM Research & Publication Sdn. Bhd. | **100** | 100 | Dormant |
| HDM Capital Sdn. Bhd. | **100** | 100 | Moneylending and investment in listed and unlisted companies |
| HwangDBS Investment Management Berhad | **53** | 53 | Management of unit trust funds and corporate funds |
| Asian Islamic Investment Management Sdn. Bhd. *(formerly known as HwangDBS Resources Sdn. Bhd.)* | **100** | 100 | Leasing of movable assets. Ceased operation on 1 November 2007. |
| **Held under HwangDBS Investment Bank Berhad:** | | | |
| HwangDBS Custodian Services Sdn. Bhd. | **100** | 100 | Dormant |
| HDM Nominees (Asing) Sdn. Bhd. | **100** | 100 | Provision of nominee services to foreign clients |
| HDM Nominees (Tempatan) Sdn. Bhd. | **100** | 100 | Provision of nominee services to local clients |
| HwangDBS Vickers Research Sdn. Bhd. | **51** | 51 | Provision of research and stock analysis |
| **Held under HwangDBS Custodian Services Sdn. Bhd.:** | | | |
| HwangDBS Custodian Nominees (Asing) Sdn. Bhd. | **100** | 100 | Dormant |
| HwangDBS Custodian Nominees (Tempatan) Sdn. Bhd. | **100** | 100 | Dormant |

## 17. Interests in jointly controlled entities

| | 2008 RM'000 | 2007 RM'000 |
|---|---|---|
| **Group** | | |
| Share of net liabilities of the jointly controlled entities | **(1,108)** | (751) |
| Redeemable convertible preference shares ("RCPS") | **1,231** | 1,231 |
| | **123** | 480 |
| **Company** | | |
| Unquoted ordinary shares, at cost | **203** | 203 |
| Redeemable convertible preference shares | **1,231** | 1,231 |
| | **1,434** | 1,434 |
| Accumulated impairment loss | **(1,304)** | – |
| | **130** | 1,434 |

Based on the fair value less cost to sell estimated using the net assets of the jointly controlled entities, HDM Private Equity Sdn. Bhd. (formerly known as DBS HDM Capital Sdn. Bhd.) and HDM Capital Management Sdn. Bhd. (formerly known as DBS HDM Capital Management Sdn. Bhd.), the company recognised an impairment loss of RM1,304,000 (2007: RM Nil) in respect of its interests in the jointly controlled entities, which have become inactive during the financial year.

The jointly controlled entities, which are all incorporated in Malaysia are:

| Name of jointly controlled entities | Equity interest 2008 % | 2007 % | Principal activity |
|---|---|---|---|
| HDM Private Equity Sdn. Bhd. ("HPE") | **50** | 50 | Investment holding. Inactive from 1 February 2008. |
| HDM Capital Management Sdn. Bhd. ("HCM") | **50** | 50 | Provision of fund management, investment advisory and related consultancy services. Inactive from 1 February 2008. |

**17. Interests in jointly controlled entities (cont'd)**

The issued and paid-up share capital of jointly controlled entities as at the balance sheet date are as follows:

| | 2008 RM'000 | 2007 RM'000 |
|---|---|---|
| **Ordinary shares in HPE:** | | |
| 50,000 shares of RM0.10 each | **5** | 5 |
| **RCPS in HPE:** | | |
| 499,500 shares of RM0.01 each | **5** | 5 |
| Share premium of RM99.99 each in respect of 24,580 shares | **2,458** | 2,458 |
| | **2,463** | 2,463 |
| **Ordinary shares in HCM:** | | |
| 400,000 shares of RM1 each | **400** | 400 |

The call for the unpaid premium of RM0.90 per ordinary share and RM99.99 per RCPS on the balance of 474,920 RCPS (2007: 474,920 RCPS) respectively will be determined by the board of directors of HPE at a later date.

The group's share of the assets and liabilities of the jointly controlled entities are as follows:

| | 2008 RM'000 | 2007 RM'000 |
|---|---|---|
| Non-current assets | **12** | 22 |
| Current assets | **129** | 811 |
| Current liabilities | **(18)** | (353) |
| | **123** | 480 |

The group's share of the revenue and expenses of the jointly controlled entities are as follows:

| | 2008 RM'000 | 2007 RM'000 |
|---|---|---|
| Revenue | **312** | 521 |
| Other income | **6** | 8 |
| Expenses | **(664)** | (1,155) |
| Loss before taxation | **(346)** | (626) |
| Taxation | **(11)** | 18 |
| Loss for the financial year | **(357)** | (608) |

## 18. Property, plant and equipment

Details of property, plant and equipment are as follows:

| | Apartments, buildings and office units RM'000 | Furniture, fixtures and fittings RM'000 | Office equipment RM'000 | Computer equipment RM'000 | Motor vehicles RM'000 | Renovations RM'000 | Capital work in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **2008** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 August 2007 | **49,998** | **8,684** | **11,199** | **42,464** | **9,808** | **10,150** | **–** | **132,303** |
| Additions | **–** | **988** | **880** | **3,564** | **1,507** | **1,199** | **–** | **8,138** |
| Disposals/Write offs | **–** | **(301)** | **(383)** | **(686)** | **(1,316)** | **(375)** | **–** | **(3,061)** |
| At 31 July 2008 | **49,998** | **9,371** | **11,696** | **45,342** | **9,999** | **10,974** | **–** | **137,380** |
| **Accumulated depreciation** | | | | | | | | |
| At 1 August 2007 | **8,450** | **5,882** | **9,244** | **32,627** | **5,901** | **6,274** | **–** | **68,378** |
| Charge for the financial year | **1,000** | **690** | **760** | **3,540** | **1,409** | **1,386** | **–** | **8,785** |
| Disposals/Write offs | **–** | **(294)** | **(343)** | **(456)** | **(1,079)** | **(375)** | **–** | **(2,547)** |
| At 31 July 2008 | **9,450** | **6,278** | **9,661** | **35,711** | **6,231** | **7,285** | **–** | **74,616** |
| **Net book value** | | | | | | | | |
| 31 July 2008 | **40,548** | **3,093** | **2,035** | **9,631** | **3,768** | **3,689** | **–** | **62,764** |
| **2007** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 August 2006 | 52,263 | 7,438 | 10,286 | 35,416 | 8,287 | 8,471 | 3,323 | 125,484 |
| Additions | 1,700 | 1,432 | 995 | 5,687 | 2,670 | 937 | – | 13,421 |
| Disposals/Write offs | (3,965) | (525) | (331) | (456) | (1,149) | (176) | – | (6,602) |
| Reclassifications | – | 339 | 249 | 1,817 | – | 918 | (3,323) | – |
| At 31 July 2007 | 49,998 | 8,684 | 11,199 | 42,464 | 9,808 | 10,150 | – | 132,303 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 August 2006 | 7,931 | 5,147 | 6,076 | 29,549 | 5,769 | 4,000 | – | 58,472 |
| Charge for the financial year | 1,008 | 1,097 | 3,407 | 3,517 | 1,210 | 2,358 | – | 12,597 |
| Disposals/Write offs | (489) | (362) | (239) | (439) | (1,078) | (84) | – | (2,691) |
| At 31 July 2007 | 8,450 | 5,882 | 9,244 | 32,627 | 5,901 | 6,274 | – | 68,378 |
| **Net book value** | | | | | | | | |
| 31 July 2007 | 41,548 | 2,802 | 1,955 | 9,837 | 3,907 | 3,876 | – | 63,925 |

**18. Property, plant and equipment (cont'd)**

| | Motor vehicles RM'000 |
|---|---|
| **Company** | |
| **2008** | |
| **Cost** | |
| At 1 August 2007 | **–** |
| Additions | **696** |
| At 31 July 2008 | **696** |
| **Accumulated depreciation** | |
| At 1 August 2007 | **–** |
| Charge for the financial year | **68** |
| At 31 July 2008 | **68** |
| **Net book value** | |
| 31 July 2008 | **628** |
| 31 July 2007 | – |

Included in the net book value of apartments, buildings and office units of the group are 99-year leasehold office units amounting to RM17,772,000 (2007: RM18,194,000) as at the balance sheet date.

As at the balance sheet date, the title deeds in respect of apartments, buildings and office units of the group belonging to a subsidiary at an aggregate carrying amount of RM28,613,000 (2007: RM30,995,000) have yet to be issued.

## 19. Investment properties

**Group**

| | Freehold land RM'000 | Apartments, buildings and office units RM'000 | Total RM'000 |
|---|---|---|---|
| **2008** | | | |
| **Cost** | | | |
| At 1 August 2007 | **2,069** | **23,220** | **25,289** |
| Disposal | **–** | **(18,288)** | **(18,288)** |
| At 31 July 2008 | **2,069** | **4,932** | **7,001** |
| **Accumulated depreciation** | | | |
| At 1 August 2007 | **–** | **961** | **961** |
| Charge for the financial year | **–** | **99** | **99** |
| Disposal | **–** | **(296)** | **(296)** |
| At 31 July 2008 | **–** | **764** | **764** |
| **Accumulated impairment loss** | | | |
| At 1 August 2007 | **–** | **6,378** | **6,378** |
| Disposal | **–** | **(6,378)** | **(6,378)** |
| At 31 July 2008 | **–** | **–** | **–** |
| **Net book value** | | | |
| 31 July 2008 | **2,069** | **4,168** | **6,237** |
| **2007** | | | |
| **Cost** | | | |
| At 1 August 2006/31 July 2007 | 2,069 | 23,220 | 25,289 |
| **Accumulated depreciation** | | | |
| At 1 August 2006 | – | 567 | 567 |
| Charge for the financial year | – | 394 | 394 |
| At 31 July 2007 | – | 961 | 961 |
| **Accumulated impairment loss** | | | |
| At 1 August 2006 | – | 2,988 | 2,988 |
| Impairment loss | – | 3,390 | 3,390 |
| At 31 July 2007 | – | 6,378 | 6,378 |
| **Net book value** | | | |
| 31 July 2007 | 2,069 | 15,881 | 17,950 |

## 19. Investment properties (cont'd)

**Group**

(a) As at the balance sheet date, the fair value of the investment properties is estimated at RM7,417,000 (2007: RM19,028,000) based on valuation by an independent professionally qualified valuer determined using the fair open market value basis in the previous financial year and directors' estimates based on indicative selling prices.

(b) Included in the net book value of apartments, buildings and office units are 99-year leasehold office units amounting to RM4,026,000 (2007: RM4,121,000) as at the balance sheet date.

(c) As at the balance sheet date, the title deeds in respect of certain buildings and office units at a carrying amount of RM4,168,000 (2007: RM4,267,000) have yet to be issued.

(d) As disclosed in the previous financial year, a subsidiary, HDM Properties Sdn. Bhd. entered into a conditional Sale and Purchase Agreement ("SPA") and Deed of Settlement dated 22 June 2007 and 7 September 2007 respectively with a third party for disposal of a property for RM12,000,000. The property was also rented to the purchaser at a monthly rental of RM20,000 until completion of the SPA. Based on the sales consideration of the property, which represented the fair value less costs to sell, the group recognised an impairment loss of RM3,390,000 as at 31 July 2007.

The sale was completed on 30 November 2007. The proceeds from disposal of the investment property received during the financial year was RM9,800,000 of the total sales consideration of RM12,000,000. Deposit and instalment payment totaling RM2,200,000 were received from the purchaser in the previous financial year.

## 20. Intangible assets

**Group**

| | Goodwill on consolidation RM'000 | Purchased goodwill RM'000 | Merchant bank licence RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2008** | | | | |
| **Cost** | | | | |
| At beginning/end of the financial year | **117** | **130,202** | **52,500** | **182,819** |
| **Accumulated impairment loss** | | | | |
| At beginning/end of the financial year | **–** | **(20,200)** | **–** | **(20,200)** |
| **Net carrying amount** | | | | |
| 31 July 2008 | **117** | **110,002** | **52,500** | **162,619** |
| **2007** | | | | |
| **Cost** | | | | |
| At beginning of the financial year | 117 | 130,202 | – | 130,319 |
| Contribution to the Government of Malaysia | – | – | 52,500 | 52,500 |
| At end of the financial year | 117 | 130,202 | 52,500 | 182,819 |
| **Accumulated impairment loss** | | | | |
| At beginning/end of the financial year | – | (20,200) | – | (20,200) |
| **Net carrying amount** | | | | |
| 31 July 2007 | 117 | 110,002 | 52,500 | 162,619 |

## 20. Intangible assets (cont'd)

**Group**

The merchant bank licence represents contribution by the investment banking subsidiary, HwangDBS Investment Bank Berhad ("HDBSIB") to the Government of Malaysia for a licence to carry on merchant banking business and is considered to have an indefinite useful life, which is not amortised and is assessed for impairment annually.

For impairment test purposes, the carrying amount of purchased goodwill of RM110 million is allocated to the HDBSIB's stockbroking operating units, being regarded as separate cash-generating units ("CGUs") and the carrying amount of merchant bank licence of RM52.5 million is allocated to the operating units of the investment banking division respectively.

The recoverable amounts of CGUs are determined based on the value in use calculations. These calculations use pre-tax cash flow projections based on the financial budgets and forecasts approved by the management covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rate to perpetuity. The cash flow projections are derived based on a number of key factors, including past performance as well as management's expectations of market developments and assessment of future trends, taking into consideration the prevailing stock market conditions as at the date of assessment.

The key assumptions for the computation of value in use include growth rate and pre-tax discount rate, which is applied to the cash flow projections and reflect the risks relating to the CGUs. The discount rates applied are 10.03% (2007:15.20%) and 10.13% (2007:11.86%) for the stockbroking operating units and investment banking operating units respectively. The growth rate of 5.0% does not exceed the long-term average growth rate for the industry in which the investment banking subsidiary operates.

No impairment charge is required for the financial year in respect of the intangible assets accruing to the CGUs. Management believes that any reasonably possible change to the key assumptions applied is not likely to cause the recoverable amounts to be lower than their carrying amounts.

## 21. Deposits from customers

**Group**

| | **2008<br>RM'000** | 2007<br>RM'000 |
|---|---|---|
| **(a) By type of deposit** | | |
| Fixed deposits | **1,001,735** | 88,605 |
| Negotiable instruments of deposits | **50,500** | – |
| | **1,052,235** | 88,605 |
| **(b) By maturity structure** | | |
| Within 6 months | **1,012,235** | 88,605 |
| 1 year to 3 years | **40,000** | – |
| | **1,052,235** | 88,605 |
| **(c) By type of customer** | | |
| Government and statutory bodies | **200,000** | – |
| Business enterprises | **790,969** | 87,597 |
| Individuals | **56,224** | 503 |
| Others | **5,042** | 505 |
| | **1,052,235** | 88,605 |

## 22. Deposits and placements of banks and other financial institutions

**Group**

| | **2008** | 2007 |
|---|---|---|
| | **RM'000** | RM'000 |
| Licensed banks | **152,376** | 14,300 |
| Licensed investment banks | **20,000** | 20,000 |
| Other financial institutions | **953,172** | 140,202 |
| | **1,125,548** | 174,502 |

The maturity structure of deposits and placements of banks and other financial institutions is as follows:

| | | |
|---|---|---|
| Within 6 months | **1,113,869** | 160,442 |
| 6 months to 1 year | **4,628** | 14,060 |
| 1 year to 3 years | **7,051** | – |
| | **1,125,548** | 174,502 |

## 23. Clients' and brokers' balances

**Group**

| | **2008** | 2007 |
|---|---|---|
| | **RM'000** | RM'000 |
| Amount due to: | | |
| – Clients | **132,987** | 232,034 |
| – Brokers | **63,874** | 306,884 |
| | **196,861** | 538,918 |

Clients' and brokers' balances represent amounts payable to clients of the investment banking and derivatives trading subsidiaries and outstanding contracts entered into on behalf of these clients where settlements have yet to be made.

Included in amounts due to clients are amounts held in trust amounting to RM87,684,000 (2007: RM55,826,000).

## 24. Other liabilities

| | Note | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|---|
| Trade payables | (a) | **25,225** | 32,362 | **–** | – |
| Clients' trust accounts | (b) | **128,159** | 150,654 | **–** | – |
| Dealer's representatives' trust accounts | (b) | **46,606** | 56,595 | **–** | – |
| Amounts payable to dealer's representatives | (c) | **8,027** | 14,853 | **–** | – |
| Contributions payable to a defined contribution plan | | **1,204** | 858 | **–** | 10 |
| Interest payable | | **7,399** | 1,875 | **629** | 587 |
| Amounts due to subsidiaries | 41(c) | **–** | – | **836** | 3,626 |
| Other payables and accruals | (d) | **42,093** | 56,187 | **2,536** | 3,092 |
| | | **258,713** | 313,384 | **4,001** | 7,315 |

(a) Trade payables comprised:

| | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|
| Amounts payable to: | | | | |
| – unit trust funds | **8,518** | 5,028 | **–** | – |
| – unit holders | **16,707** | 27,334 | **–** | – |
| | **25,225** | 32,362 | **–** | – |

(b) The clients' trust accounts and dealer's representatives' trust accounts represent trust monies held on behalf of retail and margin clients and dealer's representatives respectively.

(c) Amounts payable to dealer's representatives mainly comprise net commission payable.

(d) Other payables and accruals of the group and of the company represent amounts payable arising from the daily operations of the group and of the company. Included in other payables and accruals of the group as at the balance sheet date are dividends received on behalf of customers by certain subsidiaries amounting to RM964,000 (2007: RM1,311,000).

Included in other payables and accruals as at the previous financial year end were deposit and deferred revenue amounting to RM2,000,000 and RM200,000 respectively in respect of the disposal of an investment property (note 19(d)).

## 25. Borrowings

| | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|
| **Unsecured** | | | | |
| Revolving credits | **312,000** | 168,000 | 150,000 | 150,000 |

Revolving credit of the company as at the previous financial year end was covered by standby letter of credit issued by a deemed substantial shareholder of the company, DBS Bank Ltd., which has expired on 26 June 2008.

The effective interest rates per annum on borrowings as at the balance sheet date are as follows:

| | Group 2008 % | Group 2007 % | Company 2008 % | Company 2007 % |
|---|---|---|---|---|
| Revolving credits | **4.99** | 4.09 | **4.94** | 3.97 |

## 26. Share capital

**Group and Company**

| | 2008<br>RM'000 | 2007<br>RM'000 |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares of RM1 each | **1,000,000** | 1,000,000 |
| **Issued and fully paid:** | | |
| Ordinary shares of RM1 each | **265,845** | 265,559 |

Movements in issued and fully paid share capital are as follows:

| | 2008<br>RM'000 | 2007<br>RM'000 |
|---|---|---|
| At beginning of the financial year | **265,559** | 264,165 |
| Options exercised | **286** | 1,394 |
| At end of the financial year | **265,845** | 265,559 |

During the financial year, the issued and fully paid share capital of the company was increased from RM265,559,000 to RM265,845,000 by way of an issue of 286,000 ordinary shares of RM1 each for cash at the respective option prices, which range from RM1.32 to RM2.29 per share by virtue of the exercise of options granted under the company's Executive Share Option Scheme ("ESOS"). The newly issued ordinary shares rank pari passu in all respects with the existing issued ordinary shares of the company.

Details of share options exercised during the financial year are as follows:

| | 2008<br>RM'000 | 2007<br>RM'000 |
|---|---|---|
| Ordinary shares at nominal value of RM1 each | **286** | 1,394 |
| Share premium (note 27(a)) | **206** | 870 |
| | **492** | 2,264 |
| Weighted average share price as at dates of issue of shares (RM) | **2.26** | 2.48 |

## 26. Share capital (cont'd)

**Group and Company**

***Executive Share Option Scheme***

The company's ESOS was approved by the company's shareholders at the Extraordinary General Meeting held on 21 November 2003 and the ESOS was implemented on 10 February 2004. The ESOS is an equity-settled share-based compensation plan.

The principal features of ESOS are:

(a) Eligible executives must have been in the full time employment (excluding employment on contract or part time basis) of the group for a period of at least 12 full months of continuous service and whose employment has been confirmed in writing on or prior to the date of the offer. The eligibility to participate in the ESOS shall be at the absolute discretion of the Option Committee appointed by the Board of Directors.

(b) The total number of shares, which can be offered, shall not in aggregate exceed 10% of the issued and fully paid share capital of the company at any point of time during the duration of the ESOS.

(c) The total number of shares to be offered shall be determined by the Option Committee in its sole and absolute discretion, taking into consideration the performance and grades of the eligible executives, provided that:

  (i) not more than 50% of the shares available under the ESOS are allocated, in aggregate, to executive directors and senior management of the group; and

  (ii) not more than 10% of the shares available under the ESOS are allocated to any eligible executive who, either singly or together with one or more of his associates, holds 20% or more of the issued and fully paid share capital of the company.

(d) The option price shall be the higher of the nominal value of the shares or the five-day weighted average market price ("WAMP") of the company's shares at the time the offer is made, subject to the discretion of the Option Committee to grant a discount of not more than 10% of the said WAMP.

(e) The shares to be allotted upon any exercise of an option will rank pari passu in all respects with the then existing issued shares of the company.

(f) The ESOS shall be in force for a period of 5 years from 10 February 2004 to 9 February 2009, provided always that the company may extend the duration of the ESOS up to a maximum of 10 years in aggregate from the date of commencement.

Movements in number of share options during the financial year are as follows:

| Date of offer | Note | Balance as at 1 August 2007 '000 | Options granted '000 | Options exercised '000 | Options terminated '000 | Balance as at 31 July 2008 '000 | Option price (RM) |
|---|---|---|---|---|---|---|---|
| 16 February 2004 | (a) | 550 | – | (53) | – | 497 | 1.90 |
| 5 July 2004 | (a) | 6 | – | – | – | 6 | 1.62 |
| 15 February 2005 | (b) | 421 | – | (87) | – | 334 | 1.54 |
| 8 February 2006 | (b) | 363 | – | (95) | – | 268 | 1.32 |
| 7 July 2006 | (b) | 28 | – | (11) | – | 17 | 1.52 |
| 22 February 2007 | (c) | 803 | – | (40) | (18) | 745 | 2.29 |
| 14 March 2008 | (c) | – | 999 | – | (8) | 991 | 1.84 |
| | | **2,171** | **999** | **(286)** | **(26)** | **2,858** | |
| Weighted average share price (RM) | | **1.87** | **1.84** | **1.64** | **2.15** | **1.88** | |
| Number of share options vested as at the balance sheet date ('000) | | | | | | **2,858** | |

## 26. Share capital (cont'd)

**Group and Company**

***Executive Share Option Scheme (cont'd)***

(a) The options were granted and vested prior to 31 December 2004 and therefore were not recognised in the financial statements, in accordance with the transitional provisions of FRS 2.

(b) The options were granted after 31 December 2004 but vested before 1 August 2006 and therefore were not recognised in the financial statements, in accordance with the transitional provisions of FRS 2.

(c) The options were granted and vested after 1 August 2006 and were recognised by the group in accordance with the provisions of FRS 2.

Options exercisable in a particular year but not exercised can be carried forward to the subsequent years subject to the time limit of the ESOS. The person to whom the options have been granted has no right to participate, by virtue of the option, in any share issue of any other company in the group.

The weighted average remaining contractual life of the options outstanding as at the balance sheet date is 0.5 year (2007: 1.5 years).

The fair value of employee services received as consideration for share options of the company is measured by reference to the fair value of the share options granted using a trinomial option-pricing model. The significant inputs to the option-pricing model in respect of share options granted during the financial year are as follows:

| | **2008** | 2007 |
|---|---|---|
| Weighted average share price at grant dates | **RM1.78** | RM2.68 |
| Expected volatility (%) | **29.66%** | 36.69% |
| Option life | **0.5 year** | 1.5 years |
| Expected dividend yield (%) | **6.40%** | 2.83% |
| Weighted average risk-free interest rate (%) | **3.42%** | 3.58% |

The expected volatility is determined based on the historical volatility of the company's share prices.

The company has been granted an exemption by the Companies Commission of Malaysia from having to disclose the names of option holders who were granted less than 30,000 options during the financial year. The names of option holders to whom 30,000 options and above have been granted during the financial year at an option price of RM1.84 per share are as follows:

| | **Number of options granted '000** |
|---|---|
| **Name of option holder** | |
| Hwang Lip Teik | **50** |
| Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar | **35** |
| Teng Chee Wai | **35** |
| | **120** |

## 26. Share capital (cont'd)

**Group and Company**

***Treasury shares***

The shareholders of the company have at the Annual General Meeting held on 27 November 2007, renewed the approval for the company to buy back its own shares of up to 10% of the total issued and paid-up share capital of the company at any point in time, in accordance with Section 67A of the Companies Act, 1965.

The directors of the company are committed to enhancing the value of the company to its shareholders and believe that the share buyback can be applied in the best interests of the company and its shareholders.

Details of shares repurchased by the company from the open market are as follows:

| | No. of shares '000 | Cost RM'000 | Highest price RM | Lowest price RM | Average price * RM |
|---|---|---|---|---|---|
| **2008** | | | | | |
| At beginning of the financial year | **10,662** | **16,024** | | | **1.50** |
| Shares repurchased during the financial year: | | | | | |
| March 2008 | **5** | **9** | **1.79** | **1.79** | **1.80** |
| At end of the financial year | **10,667** | **16,033** | | | **1.50** |
| **2007** | | | | | |
| At beginning of the financial year | 10,027 | 15,025 | | | 1.50 |
| Shares repurchased during the financial year: | | | | | |
| August 2006 | 486 | 752 | 1.55 | 1.53 | 1.55 |
| September 2006 | 6 | 9 | 1.48 | 1.48 | 1.49 |
| October 2006 | 110 | 166 | 1.59 | 1.47 | 1.50 |
| December 2006 | 5 | 11 | 2.20 | 2.20 | 2.22 |
| January 2007 | 28 | 61 | 2.15 | 2.15 | 2.17 |
| | 635 | 999 | | | |
| At end of the financial year | 10,662 | 16,024 | | | 1.50 |

* *Average price includes stamp duty, brokerage and clearing fees.*

The share buyback transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

## 27. Reserves

| | Note | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|---|
| **Non-distributable** | | | | | |
| Share premium | (a) | **33,090** | 32,884 | **33,090** | 32,884 |
| Statutory reserve | (b) | **52,557** | 37,926 | **–** | – |
| AFS reserve | (c) | **(1,918)** | 7,890 | **(2,194)** | 5,933 |
| Options reserve | (d) | **431** | 320 | **431** | 320 |
| | | **84,160** | 79,020 | **31,327** | 39,137 |
| **Distributable** | | | | | |
| Retained profits | (e) | **412,358** | 409,421 | **161,262** | 147,089 |
| | | **496,518** | 488,441 | **192,589** | 186,226 |

(a) Share premium

**Group and Company**

Movements in share premium during the financial year are as follows:

| | 2008 RM'000 | 2007 RM'000 |
|---|---|---|
| At beginning of the financial year | **32,884** | 32,014 |
| Premium arising from options exercised in respect of 286,000 (2007: 1,394,000) ordinary shares | **206** | 870 |
| At end of the financial year | **33,090** | 32,884 |

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

(c) AFS reserve represents unrealised gains or losses arising from changes in fair values of securities classified as available-for-sale, net of tax.

(d) Options reserve represents fair value of share options granted and vested after 1 August 2006.

(e) Under the single-tier tax system, which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders. However, companies with Section 108 credits as at 31 December 2007 may continue to pay franked dividends until the Section 108 credits are exhausted or up to 31 December 2013, whichever is earlier unless the companies opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act 2007.

As at the balance sheet date, the company did not opt to disregard the Section 108 tax credits and the company may utilise the Section 108 tax credit balance which has been frozen as at 31 December 2007 to frank dividend payments during the 6-year transitional period. The company has, subject to confirmation by the Inland Revenue Board, sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the payment of net dividends out of all its retained profits as at 31 July 2008.

## 28. Operating revenue

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Interest income | **102,042** | 29,848 | **2,070** | 1,862 |
| Brokerage | **124,085** | 181,889 | **–** | – |
| Unit trust management and incentive fees | **41,012** | 32,340 | **–** | – |
| Advisory and arranger fees | **13,300** | 4,987 | **–** | – |
| Initial service charge | **17,553** | 81,587 | **–** | – |
| Underwriting commission and placement income | **916** | 442 | **–** | – |
| Rollover fees | **3,441** | 2,184 | **–** | – |
| Gain arising from disposal of securities held-for-trading and derivatives | **26,564** | 19,588 | **–** | – |
| Dividends and income distributions | **1,375** | 875 | **53,313** | 16,846 |
| Rental income | **670** | 824 | **–** | – |
| Other revenue | **17,635** | 4,228 | **–** | – |
| | **348,593** | 358,792 | **55,383** | 18,708 |

Interest income of the group mainly comprised interest income arising from loans, advances and financing, investment holding, securities portfolio and deposit placements of the investment banking subsidiary with other financial institutions. Interest income of the company mainly comprised interest income from deposit placements and advances to a subsidiary.

## 29. Interest income

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Loans, advances and financing | | | | |
| – interest income other than recoveries from non-performing loans, advances and financing (“NPLs”) | **33,969** | 20,473 | **–** | – |
| – recoveries from NPLs | **760** | 2,887 | **–** | – |
| Money at call and deposit placements with financial institutions | **29,415** | 6,748 | **567** | 233 |
| Securities: | | | | |
| – held-for-trading | **32,949** | 174 | **–** | – |
| – AFS | **5,397** | 2,690 | **–** | – |
| – held-to-maturity | **1,227** | 95 | **–** | – |
| Advances to a subsidiary | **–** | – | **1,503** | 1,629 |
| Others | **2,590** | 1,973 | **–** | – |
| | **106,307** | 35,040 | **2,070** | 1,862 |
| Amortisation of premium less accretion of discount | **(177)** | (105) | **–** | – |
| Interest suspended | **(664)** | (3,123) | **–** | – |
| | **105,466** | 31,812 | **2,070** | 1,862 |

## 30. Interest expense

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 RM'000** | 2007 RM'000 | **2008 RM'000** | 2007 RM'000 |
| Deposits and placements of banks and other financial institutions | **(32,658)** | (2,331) | **–** | – |
| Deposits from customers | **(16,386)** | (641) | **–** | – |
| Obligations on securities sold under repurchase agreements | **–** | (90) | **–** | – |
| Borrowings | **(10,371)** | (7,214) | **(6,110)** | (6,548) |
| Advances from subsidiaries | **–** | – | **(101)** | (87) |
| Others | **(2,700)** | (1,474) | **–** | – |
| | **(62,115)** | (11,750) | **(6,211)** | (6,635) |

## 31. Other operating income

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 RM'000** | 2007 RM'000 | **2008 RM'000** | 2007 RM'000 |
| Fee and commission income: | | | | |
| Brokerage | **124,085** | 181,889 | **–** | – |
| Unit trust management and incentive fees | **41,012** | 32,340 | **–** | – |
| Advisory and arranger fees | **13,300** | 4,987 | **–** | – |
| Underwriting commission and placement income | **916** | 442 | **–** | – |
| Rollover fees | **3,441** | 2,184 | **–** | – |
| Service charges and fees | **1,753** | 1,311 | **–** | – |
| Fees on loans, advances and financing | **2,170** | 100 | **–** | – |
| Other fees and commission | **3,358** | 406 | **–** | – |
| | **190,035** | 223,659 | **–** | – |
| Net gain/(loss) arising from disposal of: | | | | |
| – securities held-for-trading | **17,772** | 16,511 | **–** | – |
| – derivatives | **(156)** | – | **–** | – |
| – securities AFS | **2,314** | 7,130 | **2,561** | 6,854 |
| | **19,930** | 23,641 | **2,561** | 6,854 |
| Net unrealised gain/(loss) on: | | | | |
| – securities held-for-trading | **(10,894)** | 4,662 | **–** | – |
| – derivatives | **(12,273)** | (68) | **–** | – |
| | **(23,167)** | 4,594 | **–** | – |
| Gross dividends/income distributions from: | | | | |
| – securities held-for-trading | **1,189** | 543 | **–** | – |
| – securities AFS | **3,003** | 2,074 | **1,375** | 874 |
| – subsidiaries | **–** | – | **51,938** | 15,972 |
| | **4,192** | 2,617 | **53,313** | 16,846 |
| Other income: | | | | |
| Initial service charge | **17,553** | 81,587 | **–** | – |
| Net foreign exchange gain/(loss) | | | | |
| – realised | **(2,523)** | 1,514 | **–** | – |
| – unrealised | **847** | 12 | **–** | – |
| Rental income | **670** | 824 | **–** | – |
| Others | **5,619** | 1,765 | **12** | 25 |
| | **22,166** | 85,702 | **12** | 25 |
| | **213,156** | 340,213 | **55,886** | 23,725 |

## 32. Other operating expenses

| | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|
| **Personnel costs:** | | | | |
| Salaries, allowances and bonus | **(66,347)** | (55,434) | **(3,625)** | (3,502) |
| Contributions to a defined contribution plan | **(9,568)** | (7,157) | **(2)** | (14) |
| Equity compensation benefits | **(154)** | (408) | **–** | – |
| Others | **(16,884)** | (21,156) | **–** | (79) |
| | **(92,953)** | (84,155) | **(3,627)** | (3,595) |
| **Establishment related costs:** | | | | |
| Depreciation | | | | |
| – property, plant and equipment | **(8,785)** | (12,597) | **(68)** | – |
| – investment properties | **(99)** | (394) | **–** | – |
| Rental of: | | | | |
| – premises | **(3,600)** | (3,127) | **–** | – |
| – equipment | **(2,849)** | (2,826) | **–** | – |
| Repairs and maintenance of premises and equipment | **(1,250)** | (1,104) | **–** | – |
| Information technology expenses | **(1,870)** | (1,562) | **–** | – |
| Others | **(4,451)** | (3,792) | **–** | – |
| | **(22,904)** | (25,402) | **(68)** | – |
| **Promotion and marketing related expenses:** | | | | |
| Promotion and business development | **(14,048)** | (13,240) | **(457)** | (152) |
| Travelling and accommodation | **(899)** | (787) | **–** | – |
| Others | **(5,378)** | (6,802) | **(17)** | – |
| | **(20,325)** | (20,829) | **(474)** | (152) |
| **Administrative and general expenses:** | | | | |
| Auditors' remuneration | | | | |
| – statutory audit | **(249)** | (216) | **(35)** | (35) |
| – others | **(5)** | (59) | **(4)** | (4) |
| Other professional and consultancy fees | **(2,366)** | (2,515) | **(249)** | (28) |
| Communication expenses | **(4,478)** | (4,757) | **1** | (13) |
| Incentives and commission | **(28,210)** | (86,373) | **–** | – |
| Regulatory charges | **(8,943)** | (10,259) | **–** | – |
| Commission on standby letter of credit | **(953)** | (1,050) | **(953)** | (1,050) |
| Net gain on disposals of: | | | | |
| – property, plant and equipment | **199** | 660 | **–** | – |
| – investment properties | **386** | – | **–** | – |
| – other investments | **–** | 8 | **–** | – |
| Property, plant and equipment written off | **(232)** | (296) | **–** | – |
| Others | **(12,565)** | (8,660) | **(828)** | (604) |
| | **(57,416)** | (113,517) | **(2,068)** | (1,734) |
| | **(193,598)** | (243,903) | **(6,237)** | (5,481) |

## 33. Directors' remuneration

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Executive Director:** | | | | |
| Salary, bonus and other remuneration | **3,510** | 5,209 | **3,510** | 3,338 |
| Fees | **72** | 66 | **36** | 36 |
| Estimated monetary value of benefits-in-kind | **35** | 34 | **12** | – |
| **Non-Executive Directors*:** | | | | |
| Salary, bonus and other remuneration | **2,828** | 3,885 | **88** | 130 |
| Fees | **620** | 502 | **280** | 288 |
| Contributions to a defined contribution plan | **418** | 613 | **–** | 10 |
| Estimated monetary value of benefits-in-kind | **35** | 35 | **–** | – |
| | **7,518** | 10,344 | **3,926** | 3,802 |

* *Certain non-executive directors served as executive directors of principal subsidiaries of the company. The directors' remuneration for the previous financial year ended 31 July 2007 included remuneration of 2 directors who were redesignated from executive directors to non-executive directors of the company with effect from 31 January 2007.*

The directors' remuneration which are included in personnel costs of the group and of the company amounted to RM6,748,000 (2007: RM9,694,000) and RM3,598,000 (2007: RM3,478,000) respectively.

## 34. Allowance for losses on loans, advances and financing

**Group**

| | **2008** | 2007 |
|---|---|---|
| | **RM'000** | RM'000 |
| Allowance for bad and doubtful debts: | | |
| Specific allowance | | |
| – made during the financial year | **(2,552)** | (2,768) |
| – written back during the financial year | **375** | 1,896 |
| | **(2,177)** | (872) |
| General allowance | | |
| – made during the financial year | **(4,557)** | (1,783) |
| Bad debts | | |
| – written off | **(270)** | – |
| | **(7,004)** | (2,655) |

## 35. Write back of allowance for bad and doubtful debts on clients' balances and trade receivables

**Group**

| | **2008 RM'000** | 2007 RM'000 |
|---|---|---|
| Allowance for bad and doubtful debts: | | |
| Specific allowance | | |
| – made during the financial year | **(1,240)** | (870) |
| – written back during the financial year | **904** | 3,010 |
| | **(336)** | 2,140 |
| General allowance | | |
| – written back/(made) during the financial year | **70** | (21) |
| Bad debts: | | |
| – recovered | **274** | 153 |
| – written off | **–** | (280) |
| | **8** | 1,992 |

## 36. Impairment loss

| | Note | **Group** | | **Company** | |
|---|---|---|---|---|---|
| | | **2008 RM'000** | 2007 RM'000 | **2008 RM'000** | 2007 RM'000 |
| Impairment loss recognised on: | | | | | |
| – jointly controlled entities | 17 | **–** | – | **1,304** | – |
| – investment properties | 19(d) | **–** | 3,390 | **–** | – |
| | | **–** | 3,390 | **1,304** | – |

## 37. Taxation

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2008 RM'000** | 2007 RM'000 | **2008 RM'000** | 2007 RM'000 |
| In respect of the current financial year: | | | | |
| Malaysian income tax | **(15,852)** | (33,661) | **(11,291)** | (1,617) |
| Deferred tax | **1,060** | 2,480 | **(2)** | – |
| | **(14,792)** | (31,181) | **(11,293)** | (1,617) |
| In respect of prior financial years: | | | | |
| Malaysian income tax | **90** | 286 | **(3)** | (6) |
| Deferred tax | **(16)** | 2 | **–** | – |
| Real property gains tax | **–** | (5) | **–** | – |
| | **74** | 283 | **(3)** | (6) |
| | **(14,718)** | (30,898) | **(11,296)** | (1,623) |

## 37. Taxation (cont'd)

The numerical reconciliations between the applicable statutory income tax rate and the effective tax rate are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **%** | % | **%** | % |
| Applicable statutory income tax rate | **26.0** | 27.0 | **26.0** | 27.0 |
| Tax effects in respect of: | | | | |
| Expenses not deductible for tax purposes | **3.3** | 2.8 | **1.2** | 0.1 |
| Income not subject to tax | **(2.3)** | (2.1) | **(1.6)** | (15.1) |
| Lower tax rate applicable to a portion of taxable profits | **(0.2)** | (0.1) | **–** | – |
| Temporary differences not recognised | **(0.5)** | 0.2 | **–** | – |
| Overaccrual for taxation in prior financial years | **(0.1)** | (0.3) | **–** | – |
| Others | **0.3** | 0.1 | **–** | – |
| Effective tax rate | **26.5** | 27.6 | **25.6** | 12.0 |

As gazetted in the Finance Act 2007, the income tax rate is 26% for the year of assessment 2008 and for the year of assessment 2009 onwards, the income tax rate is 25%. As gazetted in the Finance Act 2003, the income tax rate for the first chargeable income of RM500,000 in respect of small medium scale companies with paid-up share capital of RM2.5 million and below is reduced to 20%. For chargeable income in excess of RM500,000, the income tax rate is at 26% (2007: 27%). The lower tax rate is applicable to a portion of taxable profits in respect of certain subsidiaries.

The Ministry of Finance Malaysia ("MOF") has approved tax credits to the investment banking subsidiary, HDBSIB based on 50% of the tax losses of the stockbroking companies acquired by HDBSIB or stockbroking companies of which the businesses were acquired by HDBSIB under the Securities Commission's ("SC") Policy Framework for Consolidation of the Stockbroking Industry.

As at 31 July 2008, the agreement to be signed between the MOF and the Liquidator of Taiping Recovery Sdn. Bhd. (In Liquidation) ("TRSB") in connection with the acquisition of the business of TRSB by HDBSIB in a prior financial year, under Section 154 of the Income Tax Act, 1967 for the release of 50% of the accumulated tax losses of TRSB has not been finalised. The Technical Division of the IRB has yet to approve and confirm the amount of the resultant tax credit. The effect of the tax credit has yet to be utilised and recognised in the financial statements.

## 38. Earnings per share

**Group**

***Basic earnings per share***

Basic earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the financial year, excluding weighted average number of ordinary shares repurchased by the company and held as treasury shares.

| | **2008** | 2007 |
|---|---|---|
| Profit for the financial year attributable to equity holders of the company (RM'000) | **36,303** | 77,634 |
| Weighted average number of ordinary shares in issue ('000) | **255,113** | 254,182 |
| Basic earnings per share (sen) | **14.23** | 30.54 |

## 38. Earnings per share (cont'd)

**Group**

***Diluted earnings per share***

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, which are share options granted to eligible executives. A calculation is done to determine the number of shares that could have been acquired at market price (determined as the volume-weighted average annual transacted share price of the company's shares) based on the option price attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the weighted average number of shares in issue during the financial year as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to the profit for the financial year attributable to equity holders of the company.

| | **2008** | 2007 |
|---|---|---|
| Profit for the financial year attributable to equity holders of the company (RM'000) | **36,303** | 77,634 |
| Weighted average number of ordinary shares for diluted earnings per share ('000): | | |
| In issue during the financial year (as above) | **255,113** | 254,182 |
| Adjustments for share options | **275** | 525 |
| | **255,388** | 254,707 |
| Diluted earnings per share (sen) | **14.22** | 30.48 |

## 39. Dividends per share

**Company**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Gross dividend per share sen** | **Amount of net dividend RM'000** | Gross dividend per share sen | Amount of net dividend RM'000 |
| **Paid:** | | | | |
| – Interim dividend | **5.0** | **9,442** | 5.0 | 9,294 |
| **Proposed:** | | | | |
| – Final dividend | **5.0** | **9,569** | 5.0 | 9,304* |
| | **10.0** | **19,011** | 10.0 | 18,598 |

At the forthcoming Annual General Meeting of the company, a final dividend in respect of the financial year ended 31 July 2008 of 5 sen gross per share, less current income tax at 25%, amounting to RM9,569,171 based on the issued and paid-up share capital of the company as at 31 July 2008, will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend, which will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 July 2009 when approved by the shareholders.

* *The final dividend paid in respect of the financial year ended 31 July 2007 on 27 December 2007 is RM9,312,679 as a result of an additional 245,000 shares issued in respect of options exercised under ESOS of the company.*

## 40. Cash and cash equivalents

| | Group 2008 RM'000 | Group 2007 RM'000 | Company 2008 RM'000 | Company 2007 RM'000 |
|---|---|---|---|---|
| Cash and short term funds | **1,256,975** | 592,719 | **16,849** | 6,708 |
| Less: Monies held in trust and dividends received on behalf of customers | **(261,870)** | (267,777) | **–** | – |
| | **995,105** | 324,942 | **16,849** | 6,708 |

## 41. Significant related party balances and transactions

In addition to the related party disclosures mentioned elsewhere in the financial statements, the other significant related party transactions and balances are as disclosed below.

### (a) Related parties and relationship

The related parties of, and their relationship with the group and the company are as follows:

| Relationship | Related party |
|---|---|
| Subsidiaries | Subsidiaries of the company as disclosed in note 16 to the financial statements |
| Key management personnel | All directors of the company and its major subsidiaries and members of management committee who make critical decisions in relation to the strategic direction of the group and of the company (including their close family members) |
| Other related parties | |
| Deemed substantial shareholder of the company | DBS Bank Ltd. |
| Subsidiaries of a deemed substantial shareholder of the company, DBS Bank Ltd. | (a) DBS Vickers Securities (Singapore) Pte Ltd.<br>(b) DBS Asset Management Ltd. |

### (b) Significant related party transactions

| | Other related parties 2008 RM'000 | Other related parties 2007 RM'000 |
|---|---|---|
| **Group** | | |
| **Income** | | |
| Reimbursement of research expenses | **1,863** | 1,266 |
| Brokerage | **778** | 1,380 |
| **Expenses** | | |
| Commission on standby letter of credit | **(953)** | (1,050) |
| Consultancy fee | **(459)** | (1,298) |
| | **1,229** | 298 |
| **Company** | | |
| **Expenses** | | |
| Commission on standby letter of credit | **(953)** | (1,050) |

## 41. Significant related party balances and transactions (cont'd)

### (b) Significant related party transactions (cont'd)

***Key management personnel compensation***

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Short term employee benefits | **7,504** | 10,763 | **3,611** | 3,469 |
| Post-employment employee benefits | **584** | 849 | **–** | 10 |
| Equity compensation benefits | **16** | 23 | **–** | – |
| Directors' fees | **693** | 572 | **316** | 324 |
| | **8,797** | 12,207 | **3,927** | 3,803 |

Movements in number of share options granted to key management personnel are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **'000** | '000 |
| At beginning of the financial year | **379** | 526 |
| Granted | **96** | 40 |
| Exercised | **(185)** | (187) |
| At end of the financial year | **290** | 379 |

### (c) Significant related party balances

| | Subsidiaries | |
|---|---|---|
| | **2008** | 2007 |
| | **RM'000** | RM'000 |
| **Company** | | |
| **Due from:** | | |
| Amount due from a subsidiary (note 12) | **30,731** | 29,678 |
| Subordinated term loans (note 12) | **10,000** | 5,000 |
| **Due to:** | | |
| Amounts due to subsidiaries (note 24) | **(836)** | (3,626) |
| | **39,895** | 31,052 |

The subordinated term loans to HDM Futures Sdn. Bhd., which have been approved by Bursa Malaysia Derivatives Berhad are unsecured and interest free. Movements in the subordinated term loans during the financial year are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **RM'000** | RM'000 |
| At beginning of the financial year | **5,000** | 5,000 |
| Loan released | **5,000** | – |
| At end of the financial year | **10,000** | 5,000 |

The subordinated term loan released in a prior financial year and current financial year of RM5 million each are repayable on 25 February 2011 and 25 June 2011 respectively.

Amount due from a subsidiary as at the balance sheet date are in respect of advances, which are unsecured and have no fixed terms of repayment. The interest rate charged by the company is 5.0% (2007: 4.5%) per annum.

Amounts due to subsidiaries as at the balance sheet date are in respect of advances, which are unsecured and have no fixed terms of repayment at an interest rate of 5.0% (2007: 4.5%) per annum.

## 42. Capital adequacy

The capital adequacy ratios of the investment banking subsidiary, HDBSIB are as follows:

| | **2008** **RM'000** | 2007 RM'000 |
|---|---|---|
| **Tier I capital:** | | |
| Issued and fully paid share capital | **500,000** | 500,000 |
| Retained profits | **204,985** | 226,854 |
| Statutory reserve | **52,557** | 37,926 |
| Options reserve | **–** | 234 |
| | **757,542** | 765,014 |
| Less: | | |
| Deferred tax assets | **(1,864)** | (825) |
| Goodwill | **(110,002)** | (110,002) |
| Total Tier I capital | **645,676** | 654,187 |
| **Tier II capital:** | | |
| General allowance for bad and doubtful debts | **5,139** | 2,388 |
| Total Tier II capital | **5,139** | 2,388 |
| Total capital | **650,815** | 656,575 |
| Less: Investments in subsidiaries | **(3,081)** | (3,081) |
| **Capital base** | **647,734** | 653,494 |
| **Before deducting proposed dividend:** | | |
| Core capital ratio | **31.8%** | 55.4% |
| Risk-weighted capital ratio | **31.9%** | 55.4% |
| **After deducting proposed dividend:** | | |
| Core capital ratio | **31.2%** | 52.3% |
| Risk-weighted capital ratio | **31.3%** | 52.3% |

The capital adequacy ratios of the investment banking subsidiary as at 31 July 2008 are computed in accordance with BNM's Revised Risk-weighted Capital Adequacy Framework: Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II) which is effective from 1 January 2008. The capital adequacy ratios as at the previous financial year end have not been restated.

## 42. Capital adequacy (cont'd)

Breakdown of risk-weighted assets by various categories of risk-weights is as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Principal RM'000** | **Risk-weighted RM'000** | Principal RM'000 | Risk-weighted RM'000 |
| Total risk-weighted assets equivalents for credit risk: | | | | |
| 0% | **841,689** | **–** | 179,693 | – |
| 20% | **161,560** | **32,312** | 397,181 | 79,436 |
| 50% | **492,466** | **246,233** | – | – |
| 100% | **659,591** | **659,591** | 1,078,983 | 1,078,983 |
| | **2,155,306** | **938,136** | 1,655,857 | 1,158,419 |
| Total risk-weighted assets equivalents for: | | | | |
| – market risk | | **770,563** | | 20,562 |
| – operational risk | | **319,379** | | – |
| – large exposure risk for equity holdings | | **1,007** | | – |
| | | **2,029,085** | | 1,178,981 |

## 43. Capital expenditure commitment

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2008 RM'000** | 2007 RM'000 | **2008 RM'000** | 2007 RM'000 |
| In respect of property, plant and equipment: | | | | |
| Contracted but not provided for | **393** | 1,456 | **–** | – |
| Approved but not contracted for | **13,852** | 18,404 | **–** | – |
| | **14,245** | 19,860 | **–** | – |
| Committed capital in HDM Private Equity Sdn. Bhd. ("HPE") in accordance with the Subscription Agreements between the company and HPE | **23,766** | 23,766 | **23,766** | 23,766 |
| | **38,011** | 43,626 | **23,766** | 23,766 |

## 44. Non-cancellable operating lease commitments

**Group**

| | **2008 RM'000** | 2007 RM'000 |
|---|---|---|
| Future minimum lease payments due: | | |
| – not later than 1 year | **4,618** | 4,206 |
| – later than 1 year but not later than 5 years | **3,295** | 6,034 |
| | **7,913** | 10,240 |

The lease commitments are in respect of rental of equipment and premises.

## 45. Commitments and contingencies

In the normal course of business, the group and the company make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

**Group**

| | 2008 Nominal amount RM'000 | 2008 Credit equivalent amount * RM'000 | 2008 Risk-weighted amount RM'000 | 2007 Nominal amount RM'000 | 2007 Credit equivalent amount * RM'000 | 2007 Risk-weighted amount RM'000 |
|---|---|---|---|---|---|---|
| Direct credit substitutes | **65,050** | **65,050** | **65,050** | – | – | – |
| Commitments to extend credits with maturity of less than 1 year: | | | | | | |
| – loans, advances and financing | **437,094** | **–** | **–** | 256,212 | – | – |
| Foreign exchange related contracts: | | | | | | |
| – less than 1 year | **103,905** | **655** | **152** | 17,149 | 3 | 1 |
| – 1 year to less than 5 years | **319,950** | **38,554** | **16,692** | – | – | – |
| Interest rate related contracts: | | | | | | |
| – less than 1 year | **1,205,000** | **1,752** | **876** | – | – | – |
| – 1 year to less than 5 years | **8,454,845** | **64,502** | **31,261** | – | – | – |
| – more than 5 years | **244,125** | **50,810** | **25,405** | – | – | – |
| Equity related contracts: | | | | | | |
| – less than 1 year | **356** | **21** | **4** | – | – | – |
| | **10,830,325** | **221,344** | **139,440** | 273,361 | 3 | 1 |

* *The credit equivalent amount is arrived at using the credit conversion factors as specified by Bank Negara Malaysia.*

**Company**

| | 2008 RM'000 | 2007 RM'000 |
|---|---|---|
| **Unsecured:** | | |
| Bank guarantees to the extent of amount drawndown in respect of credit facilities granted to a subsidiary | **132,000** | 18,000 |

## 46. Segmental information

The group is organised into the following business segments:

- Stockbroking and related activities – stockbroking, nominee services, and dealing in options and futures
- Investment banking and financial services – investment banking activities, management of unit trust and corporate funds and investment advisory
- Property investment – letting of properties
- Investment holding – investment holding
- Moneylending – moneylending and investment in listed and unlisted companies
- Others – include dormant operations, none of which is of a sufficient size to be reported separately

**Primary reporting format – business segments**

| | Stock-broking and related activities RM'000 | Investment banking and financial services RM'000 | Property investment RM'000 | Investment holding RM'000 | Money-lending RM'000 | Others RM'000 | Elimi-nations RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Revenue** | | | | | | | | |
| External revenue | 165,683 | 160,215 | 669 | 1,941 | 18,222 | 1,863 | – | 348,593 |
| Inter-segment revenue | – | 1,345 | 4,245 | 53,442 | – | 2,624 | (61,656) | – |
| Total revenue | 165,683 | 161,560 | 4,914 | 55,383 | 18,222 | 4,487 | (61,656) | 348,593 |
| **Results** | | | | | | | | |
| Segment results | 60,773 | (4,241) | 3,425 | (4,445) | 2,868 | (205) | 2,438 | 60,613 |
| Unallocated income | | | | | | | | 254 |
| Unallocated expenses | | | | | | | | (4,954) |
| | | | | | | | | 55,913 |
| Share of results of jointly controlled entities, net of tax | – | (34) | – | (323) | – | – | – | (357) |
| Profit before taxation | | | | | | | | 55,556 |
| Taxation | | | | | | | | (14,718) |
| Profit for the financial year | | | | | | | | 40,838 |
| **OTHER INFORMATION** | | | | | | | | |
| Segment assets | 851,064 | 2,526,275 | 46,516 | 34,008 | 226,792 | 4,764 | – | 3,689,419 |
| Interests in jointly controlled entities | – | 129 | – | (6) | – | – | – | 123 |
| | | | | | | | | 3,689,542 |
| Unallocated assets | | | | | | | | 40,213 |
| Total assets | | | | | | | | 3,729,755 |
| Segment liabilities | 400,966 | 2,240,601 | 52 | 153,165 | 173,852 | 898 | – | 2,969,534 |
| Unallocated liabilities | | | | | | | | 1,282 |
| Total liabilities | | | | | | | | 2,970,816 |
| Capital expenditure | 3,529 | 3,179 | – | – | 476 | 954 | – | 8,138 |
| Depreciation of: | | | | | | | | |
| – property, plant and equipment | 4,481 | 2,847 | 1,000 | 68 | 168 | 221 | – | 8,785 |
| – investment properties | – | – | 99 | – | – | – | – | 99 |

## 46. Segmental information (cont'd)

**Primary reporting format – business segments (cont'd)**

| | Stock-broking and related activities RM'000 | Investment banking and financial services RM'000 | Property investment RM'000 | Investment holding RM'000 | Money-lending RM'000 | Others RM'000 | Elimi-nations RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Revenue** | | | | | | | | |
| External revenue | 224,311 | 124,063 | 824 | 1,108 | 7,221 | 1,265 | – | 358,792 |
| Inter-segment revenue | 522 | 71 | 4,188 | 17,600 | – | 1,680 | (24,061) | – |
| Total revenue | 224,833 | 124,134 | 5,012 | 18,708 | 7,221 | 2,945 | (24,061) | 358,792 |
| **Results** | | | | | | | | |
| Segment results | 116,154 | 2,302 | 207 | 40 | (535) | (178) | (523) | 117,467 |
| Unallocated income | | | | | | | | 94 |
| Unallocated expenses | | | | | | | | (5,242) |
| | | | | | | | | 112,319 |
| Share of results of jointly controlled entities, net of tax | – | (85) | – | (523) | – | – | – | (608) |
| Profit before taxation | | | | | | | | 111,711 |
| Taxation | | | | | | | | (30,898) |
| Profit for the financial year | | | | | | | | 80,813 |
| **OTHER INFORMATION** | | | | | | | | |
| Segment assets | 1,451,547 | 375,867 | 62,078 | 41,073 | 82,307 | 4,137 | – | 2,017,009 |
| Interests in jointly controlled entities | – | 163 | – | 317 | – | – | – | 480 |
| | | | | | | | | 2,017,489 |
| Unallocated assets | | | | | | | | 19,403 |
| Total assets | | | | | | | | 2,036,892 |
| Segment liabilities | 786,131 | 307,911 | 2,377 | 153,689 | 32,787 | 585 | – | 1,283,480 |
| Unallocated liabilities | | | | | | | | 5,646 |
| Total liabilities | | | | | | | | 1,289,126 |
| Capital expenditure | 6,415 | 4,776 | 1,700 | – | 337 | 193 | – | 13,421 |
| Depreciation of: | | | | | | | | |
| – property, plant and equipment | 8,830 | 2,400 | 1,010 | – | 20 | 337 | – | 12,597 |
| – investment properties | – | – | 394 | – | – | – | – | 394 |
| Impairment loss on an investment property | – | – | 3,390 | – | – | – | – | 3,390 |

## 46. Segmental information (cont'd)

**Secondary reporting format – geographical segments**

| | Revenue | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysia | **321,525** | 314,356 | **3,463,548** | 2,017,489 | **8,138** | 13,421 |
| Singapore | **3,748** | 8,854 | **38,357** | – | **–** | – |
| Hong Kong | **12,268** | 13,784 | **100,036** | – | **–** | – |
| Taiwan | **862** | 12,320 | **413** | – | **–** | – |
| Others | **10,190** | 9,478 | **87,188** | – | **–** | – |
| | **348,593** | 358,792 | **3,689,542** | 2,017,489 | **8,138** | 13,421 |
| Unallocated assets | | | **40,213** | 19,403 | | |
| | | | **3,729,755** | 2,036,892 | | |

## 47. Financial instruments

### (a) Financial risk management objectives and policies

The operations of the group are subject to a variety of financial risks, including credit risk, market risk, liquidity risk, foreign currency risk as well as operational risk. The group has formulated a financial risk management framework and policies of the group are guided by the principal objective of minimising the group's exposure to the risks and/or costs associated with the financing, investing and operating activities of the group. Prudent risk management policies and procedures are in place for the control and management of risks associated with the day-to-day operations of the group and of the company.

**Credit risk**

Credit risk refers to the potential risk of financial loss arising from defaults by counterparties in meeting their obligations and is controlled by management through the application of credit approvals, revision of credit limits and monitoring procedures. The group's exposure to credit risks arises primarily from share trading, share margin financing, lending activities, bonds and foreign exchange trading as well as equity and debt underwriting, fund management and investment activities. The primary objective of credit risk management is to ensure that exposure to credit risk is always kept within the group's capacity to withstand potential financial losses.

The management of credit risk of the subsidiaries are governed by the credit management policies and procedures approved by the respective subsidiaries' board of directors. Daily management and monitoring of credit risk is undertaken by credit control teams working within each business unit to ensure compliance with approved policies and regulatory requirements.

All credit applications are subject to credit evaluation by the originating business units and independently reviewed and approved by authorised personnel and/or committees, within the specified authority limits. The character, integrity, credibility and reputation of the borrowers are reviewed by management to judge the borrower's reliability and capability to fulfill the financial obligations with the group.

In respect of the investment banking subsidiary, the credit risk management activities are governed by the Core Credit Risk Policies that set out the principles for credit review, evaluation and approval processes and these are established to follow the general guidelines on the "Best Practices for the Management of Credit Risk" issued by BNM. Counterparty Risk Rating System is adopted whereby each borrower is assigned a rating based on the assessment of relevant factors including the borrower's financial condition and outlook, industry and economic conditions, market position, access to capital and management strength. The Counterparty Risk Rating System is further enhanced by the Facility Risk Rating System, which takes into consideration the credit structure, collateral, guarantees and transfer risks. The credit and facility risk ratings are reviewed at least annually and more frequently when conditions warrant.

Credit risk arising from fund management activities is mitigated to a certain extent as settlement is regulated by the Securities Commission.

## 47. Financial instruments (cont'd)

### (a) Financial risk management objectives and policies (cont'd)

**Market risk**

Market risk is the risk of losses arising from changes in market prices or rates, such as interest rates, foreign exchange rates, equity prices and credit spreads, as well as in their correlation and implied volatilities.

The subsidiaries in the group manage the risk of unfavourable price changes by cautious review of the investments and collateral held with continuous monitoring of their performance and risk profiles by qualified personnel.

For the investment banking subsidiary, the market risk framework comprises the Core Market Risk Policy ("CMRP") that establishes the base standards on management of market and funding liquidity risks and the Supplementary Market Risk Policy ("SMRP"), that sets out policies at a more detailed level for specific subject matters. The CMRP and SMRP comprise the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management and the board of directors;
- Independent validation of valuation and risk models and methodologies;
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-loss for trading positions on a timely basis; and
- New product/service process whereby risk issues are identified before new products and services are launched.

The investment banking subsidiary adopts a Value-at-Risk ("VaR") methodology using a parametric (variance-covariance) approach for its interest rate and foreign exchange exposures. On a daily basis, it computes VaR for each trading business unit and for each risk element. The VaR figures are back-tested against actual profit and loss of the trading book to validate its robustness. To complement the VaR framework, sensitivity measures such as present-value basis point ("PVBP") and modified duration are used to assist in risk control limit setting. The management also monitors exposures to single counter on an ongoing basis.

**Liquidity risk**

Liquidity risk is defined as the risk of the group encountering difficulties in fulfilling its current or future payment obligations in full and at the due dates.

The group manages the funding needs and allocates funds in such a manner that all business units maintain optimum levels of liquidity sufficient for its operations. Any excess funds from operating cash cycles, which are temporary in nature, are invested in short term deposits with other financial institutions at competitive interest rates.

The group practises prudent liquidity risk management to ensure that there is adequate cash flow to meet all obligations in a timely and cost effective manner and to minimise the mismatch of financial assets and liabilities. Sufficient credit facilities are maintained with other financial institutions for contingent working capital and funding requirements.

The investment banking subsidiary's liquidity risk management is principally guided by the New Liquidity Framework ("NLF") prescribed by BNM. The key quantitative tools and techniques used by the investment banking subsidiary to manage and monitor liquidity risk include maturity mismatch analysis which involves monitoring over successive time bands and across functional currencies. This analysis includes behavioral assumptions on, inter-alia, customer loans, customer deposits and reserve assets. In addition, the investment banking subsidiary employs various liquidity ratios and concentration limits to manage funding liquidity risk.

The Risk Oversight Committee of the investment banking subsidiary reviews liquidity risk positions as well as policies relating to the identification, measurement and management of liquidity risk on a periodic basis.

## 47. Financial instruments (cont'd)

### (a) Financial risk management objectives and policies (cont'd)

**Foreign currency risk**

Foreign currency risk is the risk that the value and earnings of financial instruments will fluctuate due to changes in foreign currency exchange rates. Significant currency exposures arising on the holding of monetary assets and liabilities for which cash flows are denominated in a currency other than the group's functional currency are generally covered using derivative financial instruments, such as foreign exchange forward contracts.

**Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal, compliance, accounting and fraud risk.

The group has established policies and has put in place procedures to provide guidance to the key operating units on the risk governance structure and baseline internal controls necessary to identify, assess, monitor and control their operational risks. The policies and procedures are reviewed periodically, taking into account the business objectives and strategies of the key operating units as well as regulatory requirements. An integral part of the policies is to create a self-assessment culture in the key operating units to reinforce accountability and responsibility of risk and controls by the operating units.

The individual key operating units are responsible to manage operational risk on a regular basis. The Risk Management Committees formed at the key operating units are responsible to formulate operational risk management framework and oversee risk event management and monitoring.

Internal audit functions on the key operating units provide independent assessment of the adequacy of the internal control policies and procedures of the operating units to mitigate risk associated with operational activities.

## 47. Financial instruments (cont'd)

### (b) Interest rate risk

The tables below summarise the exposure of the group and of the company to interest rate risks. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet interest rate sensitivity gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

**Group**

| | Non-trading book | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | >1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Sub-total RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **2008** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and short term funds | 1,182,600 | – | – | – | – | 74,375 | 1,256,975 | – | 1,256,975 | 3.41 |
| Deposits and placements with banks and other financial institutions | – | 147,773 | – | – | – | – | 147,773 | – | 147,773 | 3.34 |
| Securities held-for-trading | – | – | – | – | – | – | – | 1,229,259 | 1,229,259 | 5.06 |
| Securities AFS | – | – | – | 10,000 | – | 23,161 | 33,161 | – | 33,161 | 3.69 |
| Loans, advances and financing: | | | | | | | | | | |
| – performing | 264,359 | 151,006 | 15,924 | 12,183 | 121,077 | (7,819)* | 556,730 | – | 556,730 | 9.40 |
| – non-performing | – | – | – | – | – | 8,602 | 8,602 | – | 8,602 | – |
| Clients' and brokers' balances | 948 | – | – | – | – | 161,161 | 162,109 | – | 162,109 | 9.00 |
| Derivative assets | – | – | – | – | – | – | – | 14,955 | 14,955 | – |
| Other assets [(1)] | 9,551 | 1,870 | – | – | – | 308,770 | 320,191 | – | 320,191 | 2.15 |
| **Total assets** | 1,457,458 | 300,649 | 15,924 | 22,183 | 121,077 | 568,250 | 2,485,541 | 1,244,214 | 3,729,755 | |
| **Liabilities** | | | | | | | | | | |
| Deposits from customers | 682,651 | 328,584 | 1,000 | 40,000 | – | – | 1,052,235 | – | 1,052,235 | 3.51 |
| Deposits and placements of banks and other financial institutions | 1,053,237 | 40,632 | 24,628 | 7,051 | – | – | 1,125,548 | – | 1,125,548 | 3.37 |
| Clients' and brokers' balances | 86,732 | – | – | – | – | 110,129 | 196,861 | – | 196,861 | 2.83 |
| Derivative liabilities | – | – | – | – | – | – | – | 24,171 | 24,171 | – |
| Other liabilities [(2)] | 174,669 | – | – | – | – | 85,332 | 260,001 | – | 260,001 | 3.26 |
| Borrowings | 87,000 | 50,000 | 175,000 | – | – | – | 312,000 | – | 312,000 | 4.99 |
| Total liabilities | 2,084,289 | 419,216 | 200,628 | 47,051 | – | 195,461 | 2,946,645 | 24,171 | 2,970,816 | |
| Total equity | – | – | – | – | – | 758,939 | 758,939 | – | 758,939 | – |
| **Total liabilities and equity** | 2,084,289 | 419,216 | 200,628 | 47,051 | – | 954,400 | 3,705,584 | 24,171 | 3,729,755 | |
| **On-balance sheet interest sensitivity gap** | (626,831) | (118,567) | (184,704) | (24,868) | 121,077 | (386,150) | (1,220,043) | 1,220,043 | – | |
| **Off-balance sheet interest sensitivity gap** | (258,725) | 394,695 | (675,000) | (7,204,845) | (244,125) | – | (7,988,000) | – | (7,988,000) | |
| | (885,556) | 276,128 | (859,704) | (7,229,713) | (123,048) | (386,150) | (9,208,043) | 1,220,043 | (7,988,000) | |

[(1)] *Other assets include Other assets, Statutory deposits with Bank Negara Malaysia, Tax recoverable, Deferred tax assets, Interests in jointly controlled entities, Property, plant and equipment, Investment properties and Intangible assets as disclosed in the balance sheets.*

*Loans, advances and financing, Clients' and brokers' balances and Other assets are stated net of specific and general allowances and interest-in-suspense.*

* *The negative balance represents general allowance for losses on loans, advances and financing.*

[(2)] *Other liabilities include Other liabilities, Taxation and Deferred tax liabilities as disclosed in the balance sheets.*

## 47. Financial instruments (cont'd)

### (b) Interest rate risk (cont'd)

**Group**

| | Non-trading book | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | >1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Sub-total RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **2007** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and short term funds | 468,895 | – | – | – | – | 123,824 | 592,719 | – | 592,719 | 3.29 |
| Deposits and placements with banks and other financial institutions | – | 15,000 | – | – | – | – | 15,000 | – | 15,000 | 3.56 |
| Securities held-for-trading | – | – | – | – | – | – | – | 12,549 | 12,549 | – |
| Securities AFS | 45,027 | 47,864 | – | 10,105 | – | 40,394 | 143,390 | – | 143,390 | 3.56 |
| Loans, advances and financing: | | | | | | | | | | |
| – performing | 216,189 | 3,154 | 44,192 | 1,062 | 12,776 | (3,262)* | 274,111 | – | 274,111 | 8.68 |
| – non-performing | – | – | – | – | – | 10,404 | 10,404 | – | 10,404 | – |
| Clients' and brokers' balances | 1,838 | – | – | – | – | 710,269 | 712,107 | – | 712,107 | 9.00 |
| Derivative assets | – | – | – | – | – | – | – | 3 | 3 | – |
| Other assets (1) | 1,000 | 1,816 | – | – | – | 273,793 | 276,609 | – | 276,609 | 2.74 |
| **Total assets** | 732,949 | 67,834 | 44,192 | 11,167 | 12,776 | 1,155,422 | 2,024,340 | 12,552 | 2,036,892 | |
| **Liabilities** | | | | | | | | | | |
| Deposits from customers | 88,100 | 505 | – | – | – | – | 88,605 | – | 88,605 | 3.49 |
| Deposits and placements of banks and other financial institutions | 97,090 | 52,432 | 24,980 | – | – | – | 174,502 | – | 174,502 | 3.54 |
| Clients' and brokers' balances | 45,745 | – | – | – | – | 493,173 | 538,918 | – | 538,918 | 3.26 |
| Derivative liabilities | – | – | – | – | – | – | – | 71 | 71 | – |
| Other liabilities (2) | 203,173 | – | – | – | – | 115,857 | 319,030 | – | 319,030 | 2.98 |
| Borrowings | 18,000 | – | 150,000 | – | – | – | 168,000 | – | 168,000 | 4.09 |
| Total liabilities | 452,108 | 52,937 | 174,980 | – | – | 609,030 | 1,289,055 | 71 | 1,289,126 | |
| Total equity | – | – | – | – | – | 747,766 | 747,766 | – | 747,766 | – |
| **Total liabilities and equity** | 452,108 | 52,937 | 174,980 | – | – | 1,356,796 | 2,036,821 | 71 | 2,036,892 | |
| **On-balance sheet interest sensitivity gap** | 280,841 | 14,897 | (130,788) | 11,167 | 12,776 | (201,374) | (12,481) | 12,481 | – | |

*(1) Other assets include Other assets, Tax recoverable, Deferred tax assets, Interests in jointly controlled entities, Property, plant and equipment, Investment properties and Intangible assets as disclosed in the balance sheets.*

*Loans, advances and financing, Clients' and brokers' balances and Other assets are stated net of specific and general allowances and interest-in-suspense.*

** The negative balance represents general allowance for losses on loans, advances and financing.*

*(2) Other liabilities include Other liabilities, Taxation and Deferred tax liabilities as disclosed in the balance sheets.*

## 47. Financial instruments (cont'd)

### (b) Interest rate risk (cont'd)

**Company**

| | Non-trading book | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | >1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Sub-total RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **2008** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and short term funds | **16,154** | **–** | **–** | **–** | **–** | **695** | **16,849** | **–** | **16,849** | **3.01** |
| Securities AFS | **–** | **–** | **–** | **–** | **–** | **16,267** | **16,267** | **–** | **16,267** | **–** |
| Other assets [1] | **30,731** | **–** | **–** | **–** | **–** | **532,557** | **563,288** | **–** | **563,288** | **5.00** |
| **Total assets** | **46,885** | **–** | **–** | **–** | **–** | **549,519** | **596,404** | **–** | **596,404** | |
| **Liabilities** | | | | | | | | | | |
| Other liabilities [2] | **836** | **–** | **–** | **–** | **–** | **3,167** | **4,003** | **–** | **4,003** | **5.00** |
| Borrowings | **–** | **–** | **150,000** | **–** | **–** | **–** | **150,000** | **–** | **150,000** | **4.94** |
| Total liabilities | **836** | **–** | **150,000** | **–** | **–** | **3,167** | **154,003** | **–** | **154,003** | |
| Total equity | **–** | **–** | **–** | **–** | **–** | **442,401** | **442,401** | **–** | **442,401** | **–** |
| **Total liabilities and equity** | **836** | **–** | **150,000** | **–** | **–** | **445,568** | **596,404** | **–** | **596,404** | |
| On-balance sheet interest sensitivity gap | **46,049** | **–** | **(150,000)** | **–** | **–** | **103,951** | **–** | **–** | **–** | |

*[1] Other assets include Other assets, Tax recoverable, Investments in subsidiaries, Interests in jointly controlled entities and Property, plant and equipment as disclosed in the balance sheets.*

*[2] Other liabilities include Other liabilities and Deferred tax liabilities as disclosed in the balance sheets.*

| | Non-trading book | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 month RM'000 | >1 – 3 months RM'000 | >3 – 12 months RM'000 | >1 – 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Sub-total RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **2007** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and short term funds | 6,318 | – | – | – | – | 390 | 6,708 | – | 6,708 | 2.95 |
| Securities AFS | – | – | – | – | – | 28,368 | 28,368 | – | 28,368 | – |
| Other assets [1] | 29,678 | – | – | – | – | 528,322 | 558,000 | – | 558,000 | 4.50 |
| Total assets | 35,996 | – | – | – | – | 557,080 | 593,076 | – | 593,076 | |
| **Liabilities** | | | | | | | | | | |
| Other liabilities | 3,626 | – | – | – | – | 3,689 | 7,315 | – | 7,315 | 4.50 |
| Borrowings | – | – | 150,000 | – | – | – | 150,000 | – | 150,000 | 3.97 |
| Total liabilities | 3,626 | – | 150,000 | – | – | 3,689 | 157,315 | – | 157,315 | |
| Total equity | – | – | – | – | – | 435,761 | 435,761 | – | 435,761 | – |
| **Total liabilities and equity** | 3,626 | – | 150,000 | – | – | 439,450 | 593,076 | – | 593,076 | |
| **On-balance sheet interest sensitivity gap** | 32,370 | – | (150,000) | – | – | 117,630 | – | – | – | |

*[1] Other assets include Other assets, Tax recoverable, Investments in subsidiaries and Interests in jointly controlled entities as disclosed in the balance sheets.*

## 47. Financial instruments (cont'd)

### (c) Credit risk

The tables below set out the credit risk concentrations of the group and of the company:

**Group**

| | Short term funds and deposit placements with financial institutions RM'000 | Securities held-for-trading RM'000 | Securities AFS RM'000 | Loans, advances and financing [1] RM'000 | Clients' and brokers' balances [1] RM'000 | Other assets [2] RM'000 | Total on-balance sheet exposure RM'000 | Commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| Agriculture and forestry | – | – | 504 | – | – | – | 504 | – |
| Mining & quarrying | – | 109,727 | – | – | – | – | 109,727 | – |
| Manufacturing | – | – | 322 | 19,177 | – | 181 | 19,680 | 32,550 |
| Infrastructure & utilities | – | 214,446 | 3,455 | 77,257 | – | 4,911 | 300,069 | – |
| Construction | – | – | – | – | – | 2,325 | 2,325 | – |
| Real estate | – | 14,891 | 2,141 | 51,818 | – | 881 | 69,731 | – |
| General commerce | – | 4,995 | 1,925 | – | – | 125 | 7,045 | – |
| Finance, insurance and business services | 628,498 | 761,837 | 11,051 | 30,043 | – | 37,986 | 1,469,415 | 188,794 |
| Government and government agencies | 776,200 | – | 10,000 | – | – | 41,904 | 828,104 | – |
| Transport, storage and communication | – | 101,041 | 3,273 | – | – | 2,151 | 106,465 | – |
| Purchase of securities | – | – | – | 223,932 | 162,168 | – | 386,100 | – |
| Consumption credit | – | – | – | 133,424 | – | – | 133,424 | – |
| Others | – | – | 490 | 37,500 | – | 1,656 | 39,646 | – |
| | 1,404,698 | 1,206,937 | 33,161 | 573,151 | 162,168 | 92,120 | 3,472,235 | 221,344 |
| Assets, commitments and contingencies not subject to credit risk | 50 | 22,322 | – | – | – | 8,365 | 30,737 | – |
| | 1,404,748 | 1,229,259 | 33,161 | 573,151 | 162,168 | 100,485 | 3,502,972 | 221,344 |

*[1] Excludes general allowance for losses on loans, advances and financing and clients' balances amounting to RM7,819,000 and RM59,000 respectively.*

*[2] Other assets include Derivative assets, Other assets, Statutory deposits with BNM and Tax recoverable as disclosed in the balance sheets.*

*Risk concentration for commitments and contingencies is based on the credit equivalent amounts as disclosed in note 45 to the financial statements.*

### 47. Financial instruments (cont'd)

#### (c) Credit risk (cont'd)

**Group**

| | Short term funds and deposit placements with financial institutions RM'000 | Securities held-for-trading RM'000 | Securities AFS RM'000 | Loans, advances and financing (1) RM'000 | Clients' and brokers' balances (1) RM'000 | Other assets (2) RM'000 | Total on-balance sheet exposure RM'000 | Commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| Agriculture and forestry | – | – | 1,882 | – | – | 44 | 1,926 | – |
| Manufacturing | – | – | 1,656 | 12,789 | – | 168 | 14,613 | – |
| Infrastructure & utilities | – | – | 5,268 | – | – | 1,122 | 6,390 | – |
| Construction | – | – | 2,392 | 500 | – | 4 | 2,896 | – |
| Real estate | – | – | 2,060 | – | – | 205 | 2,265 | – |
| General commerce | – | – | 4,853 | – | – | 244 | 5,097 | – |
| Finance, insurance and business services | 468,972 | – | 77,717 | – | – | 9,212 | 555,901 | 3 |
| Government and government agencies | 138,700 | – | 39,988 | – | – | 5,311 | 183,999 | – |
| Wholesale & retail trade and restaurants & hotels | – | – | 1,447 | – | – | 11 | 1,458 | – |
| Transport, storage and communication | – | – | 2,986 | – | – | 34 | 3,020 | – |
| Purchase of securities | – | – | – | 241,866 | 712,236 | – | 954,102 | – |
| Others | – | – | 3,141 | 32,622 | – | 4,293 | 40,056 | – |
| | 607,672 | – | 143,390 | 287,777 | 712,236 | 20,648 | 1,771,723 | 3 |
| Assets, commitments and contingencies not subject to credit risk | 47 | 12,549 | – | – | – | 9,939 | 22,535 | – |
| | 607,719 | 12,549 | 143,390 | 287,777 | 712,236 | 30,587 | 1,794,258 | 3 |

(1) *Excludes general allowance for losses on loans, advances and financing and clients' balances amounting to RM3,262,000 and RM129,000 respectively.*

(2) *Other assets include Derivative assets, Other assets and Tax recoverable as disclosed in the balance sheets.*

*Risk concentration for commitments and contingencies is based on the credit equivalent amounts as disclosed in note 45 to the financial statements.*

## 47. Financial instruments (cont'd)

### (c) Credit risk (cont'd)

**Company**

| | Short term funds and deposit placements with financial institutions RM'000 | Securities AFS RM'000 | Other assets [1] RM'000 | Total on-balance sheet exposure RM'000 |
|---|---|---|---|---|
| **2008** | | | | |
| Agriculture and forestry | **–** | **504** | **–** | **504** |
| Manufacturing | **–** | **322** | **–** | **322** |
| Infrastructure & utilities | **–** | **3,455** | **–** | **3,455** |
| Real estate | **–** | **2,141** | **–** | **2,141** |
| General commerce | **–** | **1,925** | **–** | **1,925** |
| Finance, insurance and business services | **16,849** | **4,157** | **40,938** | **61,944** |
| Government and government agencies | **–** | **–** | **5,265** | **5,265** |
| Transport, storage and communication | **–** | **3,273** | **–** | **3,273** |
| Others | **–** | **490** | **4** | **494** |
| | **16,849** | **16,267** | **46,207** | **79,323** |
| Assets not subject to credit risk | **–** | **–** | **52** | **52** |
| | **16,849** | **16,267** | **46,259** | **79,375** |
| **2007** | | | | |
| Agriculture and forestry | – | 1,882 | – | 1,882 |
| Manufacturing | – | 1,656 | – | 1,656 |
| Infrastructure & utilities | – | 5,268 | – | 5,268 |
| Construction | – | 421 | – | 421 |
| Real estate | – | 2,060 | – | 2,060 |
| General commerce | – | 4,853 | – | 4,853 |
| Finance, insurance and business services | 6,708 | 4,654 | 34,684 | 46,046 |
| Government and government agencies | – | – | 4,212 | 4,212 |
| Wholesale & retail trade and restaurants & hotels | – | 1,447 | – | 1,447 |
| Transport, storage and communication | – | 2,986 | – | 2,986 |
| Others | – | 3,141 | 5 | 3,146 |
| | 6,708 | 28,368 | 38,901 | 73,977 |
| Assets not subject to credit risk | – | – | 986 | 986 |
| | 6,708 | 28,368 | 39,887 | 74,963 |

[1] *Other assets include Other assets and Tax recoverable as disclosed in the balance sheets.*

## 48. Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents 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 affect these estimates and the resulting fair value estimates.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132, Financial Instruments: Disclosure and Presentation, which requires the fair value information to be disclosed.

As at the balance sheet date, the fair values of financial instruments of the group and of the company approximate their carrying amounts, except for the following:

| | | **2008** | | 2007 | |
|---|---|---|---|---|---|
| | Note | **Carrying amount RM'000** | **Fair value RM'000** | Carrying amount RM'000 | Fair value RM'000 |
| **Group** | | | | | |
| **Financial assets** | | | | | |
| Securities AFS | | | | | |
| – unquoted securities | 8 | **490*** | **1,738** | 490* | 1,438 |
| Loans, advances and financing | 9 | **565,332** | **568,098** | 284,515 | 288,648 |
| **Company** | | | | | |
| **Financial assets** | | | | | |
| Securities AFS | | | | | |
| – unquoted securities | 8 | **490** | **1,738** | 490 | 1,438 |
| Subordinated term loans to a subsidiary, HDM Futures Sdn. Bhd. | 41(c) | **10,000** | **8,706** | 5,000 | 4,104 |

* *The carrying amount of unquoted securities is stated net of accumulated impairment loss of RM4,000,000 (2007: RM4,000,000) as at the balance sheet date.*

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

**(a) Cash and short term funds**

The carrying amount of cash and short term funds is a reasonable estimate of fair value.

**(b) Deposits and placements with banks and other financial institutions**

For deposits and placements with banks and financial institutions with maturities of less than one year, the carrying amount is a reasonable estimate of fair value. For deposits and placements with maturities of one year and above, the 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.

**(c) Securities held-for-trading and securities available-for-sale**

The estimated fair values of securities are generally based on quoted and observable market prices. In the absence of such quoted prices, the fair values are based on the expected cash flows of the securities discounted by indicative market yields for similar instruments as at balance sheet date or net tangible asset backing of the investee.

## 48. Fair value of financial instruments (cont'd)

**(d) Loans, advances and financing**

For floating rate loans and fixed rate loans with remaining period to maturity of less than one year, the carrying amounts are generally reasonable estimates of their fair values.

For fixed rate loans with remaining period to maturity of one year and above, fair values are estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The estimated fair value of fixed rated share margin financing approximates the carrying amount as the amount is deemed repayable on demand.

The fair values of non-performing loans are represented by their carrying amounts, net of allowance for losses and interest suspended, being the expected recoverable amounts of the loans.

**(e) Clients' and brokers' balances**

The carrying amount of clients' and brokers' balances is a reasonable estimate of fair value due to their short term tenure of less than one year.

**(f) Derivative financial instruments**

The carrying amounts of the derivative assets and liabilities being mark-to-market values, are reasonable estimates of their fair value.

**(g) Other assets and liabilities**

Fair value of subordinated term loan to a subsidiary is estimated by discounting the estimated future cash flows using the prevailing market interest rate. The estimated fair value of the amount due from/to subsidiaries approximates the carrying amount as the amount has no fixed terms of repayment and deemed repayable on demand.

The carrying amounts of other financial assets and liabilities less any estimated allowance 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.

**(h) Deposits from customers**

For deposits from customers with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For deposit with maturities of one year or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

**(i) Deposits and placements of banks and other financial institutions**

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than one year approximate the carrying values. For deposits and placements with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar remaining period to maturity.

**(j) Borrowings**

The estimated fair values of borrowings with maturities of less than one year approximate the carrying values.

## 49. Comparative figures

During the financial year, amounts due from share margin financing accounts have been reclassified to Loans, advances and financing. Previously, the share margin financing balances were classified as Clients' and brokers' balances (Dr.). The following comparative figures have been restated to conform with current financial year's presentation:

**Group**

| | As previously reported RM'000 | Reclassfication RM'000 | As restated RM'000 |
|---|---|---|---|
| **Balance sheets as at 31 July 2007** | | | |
| Loans, advances and financing | 75,793 | 208,722 | 284,515 |
| Clients' and brokers' balances (Dr.) | 920,829 | (208,722) | 712,107 |
| | 996,622 | – | 996,622 |
| **Income statements for the financial year ended 31 July 2007** | | | |
| Allowance for losses on loans, advances and financing | (3,579) | 924 | (2,655) |
| Write back of allowance for bad and doubtful debts on clients' balances and trade receivables | 2,916 | (924) | 1,992 |

## 50. Material litigations

**Group**

Save as disclosed below, neither the company nor any of its subsidiaries are engaged in any material litigation, either as plaintiff or defendant and the directors do not have any knowledge of any proceedings, pending or threatened, against the group or of any facts likely to give rise to any proceedings which might materially affect the position or business of the group.

The material litigation cases are as follows:

(a) Claim filed by a remisier's former assistant for damages of RM40 million against the investment banking subsidiary, HDBSIB, in October 1999 arising from a police report lodged by the remisier against the said assistant over an incident of unauthorised sale of shares has been withdrawn by the remisier's former assistant with liberty to file afresh on 18 May 2004. The said remisier's former assistant had re-filed his claim on 16 June 2004 claiming for damages resulting from libel, wrongful procurement of arrest and conspiracy and an order for injunction against HDBSIB, the remisier and their agents from spreading any defamatory words against the said remisier's former assistant. HDBSIB has filed its defence and has also filed an application to strike out the claim. The court has allowed the HDBSIB's application to strike out the claim on 13 August 2008. The remisier's former assistant has filed an appeal against the decision and that the court has fixed 4 November 2008 for the hearing of the Notice of Appeal.

(b) Claim filed by a client of HDBSIB in May 2000 against HDBSIB for damages of RM130 million wherein the client alleged collusion to defraud him and mental suffering after HDBSIB commenced legal action against him in May 1998 to recover an outstanding sum of RM8.46 million. HDBSIB's claim against the said client and the client's claim against HDBSIB have been consolidated. The court has fixed 8 October 2008 for continued hearing.

The above cases are pending in courts and based on legal opinion, the group is confident of successfully defending the claims.

## 51. Significant events during the financial year

**Group and Company**

(a) On 31 July 2008, the joint venture contract between the company, Prudential Vietnam Assurance Private Limited and an individual for the establishment of a stockbroking company in Vietnam has been mutually terminated by the parties to the joint venture contract without any claims against each other.

(b) On 30 May 2008, the company entered into Share Sale Agreements with DBS Nominees (Private) Limited and DBS Bank Ltd. to acquire from DBS Nominees (Private) Limited the remaining 50% equity interests in the company's jointly controlled entities:

(i) HDM Private Equity Sdn. Bhd. (formerly known as DBS HDM Capital Sdn. Bhd.) ("HPE"), comprising 25,000 ordinary shares of RM0.10 each and 249,750 redeemable convertible preference shares of RM0.01 each for a total cash consideration of RM1; and

(ii) HDM Capital Management Sdn. Bhd. (formerly known as DBS HDM Capital Management Sdn. Bhd.) ("HCM"), comprising 200,000 ordinary shares of RM1 each for a cash consideration of RM126,909.

The transaction was completed subsequent to the financial year end, on 25 September 2008 and both HPE and HCM became the wholly-owned subsidiaries of the company.

## 52. Subsequent events

**Group and Company**

As disclosed in note 51(b), the acquisition of the remaining 50% equity interests in the jointly controlled entities, HPE and HCM by the company was completed on 25 September 2008.

Details of total net assets acquired by the group at date of acquisition and the cash flow arising from acquisition are as follows:

| | RM'000 |
|---|---|
| Property, plant and equipment | 24 |
| Receivables, deposits and prepayments | 4 |
| Cash and bank balances | 232 |
| Payables and accruals | (23) |
| Total net assets | 237 |
| Less: Amount accounted for as Interests in jointly controlled entities | (119) |
| | 118 |
| Goodwill | 9 |
| Purchase considerations | 127 |
| Purchase considerations discharged by cash | 127 |
| Less: Cash and cash equivalents acquired | (232) |
| Net cash inflow arising from acquisition of subsidiaries | (105) |

There is no significant effect arising from the acquisition of the subsidiaries on the group's financial results for the financial year in which the transaction was completed.

## 53. Approval of financial statements

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors dated 30 September 2008.

# Statement By Directors

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

We, Dato' Seri Hwang Sing Lue and Hwang Lip Teik, being two of the directors of Hwang-DBS (Malaysia) Berhad, state that, in the opinion of the directors, the financial statements set out on pages 51 to 121 are drawn up so as to exhibit a true and fair view of the state of affairs of the group and of the company as at 31 July 2008 and of the results and cash flows of the group and of the company for the financial year ended on that date in accordance with the Financial Reporting Standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

In accordance with a resolution of the Board of Directors dated 30 September 2008.

**DATO' SERI HWANG SING LUE**
Executive Chairman

**HWANG LIP TEIK**
Director

# Statutory Declaration

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

I, Teh Poh Lean, being the officer primarily responsible for the financial management of Hwang-DBS (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 51 to 121 are, in my opinion, 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.

**TEH POH LEAN**

Subscribed and solemnly declared at Penang on 30 September 2008.

Before me

Commissioner for Oaths

HUANG PETER
*PESURUHJAYA SUMPAH*
*(COMMISSIONER FOR OATHS)*
368-3-1 & 2, Beliisa Row
Jalan Burma, 10350 Pulau Pinang.

PESURUHJAYA SUMPAH
No : P 006
Nama : HUANG PETER
MALAYSIA

# Corporate Directory

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## BRANCHES OF HWANGDBS INVESTMENT BANK BERHAD

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## ELECTRONIC ACCESS FACILITY OUTLETS

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HWANG-DBS (MALAYSIA) BERHAD
(238969-K)

# Proxy Form

I / We, ______________________________ NRIC No. ______________
(IN BLOCK LETTERS)

of ______________________________
(FULL ADDRESS)

being a member of the abovenamed Company, hereby appoint ______________________________
(IN BLOCK LETTERS)

NRIC No. ______________ of ______________________________ or
(FULL ADDRESS)

failing him ______________________________ NRIC No. ______________
(IN BLOCK LETTERS)

of ______________________________
(FULL ADDRESS)

as my / our proxy to vote for me / us on my / our behalf at the Sixteenth Annual General Meeting of the Company, to be held at the Bayan Room, Hotel Equatorial, No. 1, Jalan Bukit Jambul, 11900 Penang on Thursday, 27 November 2008 at 10.45 a.m. and at any adjournment thereof.

My / our proxy is to vote as indicated below with an "X":-

| RESOLUTIONS | | FOR | AGAINST |
|---|---|---|---|
| To receive and adopt the audited Financial Statements and Reports | (Resolution 1) | | |
| To approve the payment of a final dividend of 5 sen per ordinary share less 25% income tax | (Resolution 2) | | |
| To re-elect Ng Wai Hung, Andrew as Director retiring under Article 83 of the Articles of Association of the Company | (Resolution 3) | | |
| To re-appoint the following Directors in accordance with Section 129(6) of the Companies Act, 1965:-<br>(a) Dato' Seri Hwang Sing Lue | (Resolution 4) | | |
| (b) Ong Eng Kooi | (Resolution 5) | | |
| To approve the payment of Directors' fees | (Resolution 6) | | |
| To re-appoint Messrs PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration | (Resolution 7) | | |
| As special business, to pass the ordinary resolution on Proposed Renewal Of Purchase Of Own Shares | (Resolution 8) | | |
| As special business, to pass the ordinary resolution on Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature | (Resolution 9) | | |
| As special business, to pass the ordinary resolution on Authority To Issue Shares | (Resolution 10) | | |

Dated this __________ day of ____________________ 2008.

| No. of Shares Held: | |
|---|---|

______________________
Signature/Common Seal

**Notes:-**

1. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(a) and (b) of the Companies Act, 1965 shall not apply to the Company.
2. To be valid, this form must be deposited at the Registered Office of the Company at Level 8, Wisma Sri Pinang, 60 Green Hall, 10200 Penang not less than forty-eight (48) hours before the time for holding the Meeting.
3. A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the Meeting.
4. A member who wishes to appoint more than one (1) proxy to attend the Meeting must specify the proportion of the shareholdings to be represented by each proxy. If the proportion of shareholdings is not specified, the appointment shall be invalid.
5. Unless voting instructions are indicated with an "X" in the spaces provided above, the proxy may abstain from voting or vote on any resolutions as he/she thinks fit.
6. If the appointor is a corporation, this form must be executed under the Common Seal or under the hand of its duly authorised attorney.

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here

**HWANG-DBS (MALAYSIA) BERHAD**
(238969-K)

Level 8, Wisma Sri Pinang
60 Green Hall, 10200 Penang
Malaysia.

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