
INFORMATION ON KNKH GROUP

1. HISTORY AND PRINCIPAL ACTIVITIES

KNKH was incorporated in Malaysia under the Act on 7 June 1994 as a private limited company under the name of Empirex Sdn Bhd. KNKH subsequently converted to a public limited company on 1 August 1994 under the name of Empirex Berhad. It assumed its present name on 28 March 1995.

The principal activity of KNKH is investment holding and provision of management services.

2. SHARE CAPITAL

The authorised and issued and paid-up share capital of KNKH as at the LPD are as follows:

Type	No. of Shares	Par Value RM	Amount RM
Authorised	800,000,000	1.00	800,000,000
Issued and Paid-up	611,759,499	1.00	611,759,499

3. SUBSIDIARIES AND ASSOCIATED COMPANIES

The subsidiaries of KNKH as at the LPD are as follows:

Subsidiaries	Place/ Date of incorporation	Issued and paid-up capital RM	Effective equity interest (%)	Principal activity
Kenanga Investment Bank Berhad	Malaysia/ 6.9.1973	620,000,000	100	Investment banking business, provision of stockbroking and related financial services
Kenanga Investors Berhad	Malaysia/ 2.8.1995	6,765,300	100	Promotion and management of unit trust funds and management of investment funds
Kenanga Islamic Investors Berhad (formerly known as Kenanga Fund Management Berhad)	Malaysia/ 5.11.1997	21,043,336	100	Managing investment funds
Kenanga Asset Management Sdn Bhd	Malaysia/ 12.8.1994	6,000,000	100	Dormant
Kenanga Nominees (Tempatan) Sdn Bhd	Malaysia/ 19.12.1973	2	100	Provision of nominee services
Kenanga Nominees (Asing) Sdn Bhd	Malaysia/ 28.10.1993	3	100	Provision of nominee services
Kenanga Capital Sdn Bhd	Malaysia/ 24.7.1997	13,000,000	100	Licensed money lender
Kenanga Deutsche Futures Sdn Bhd	Malaysia/ 2.8.1995	5,000,000	73	Futures Broker
Kenanga Management & Services Sdn Bhd	Malaysia/ 7.8.1980	600,000	100	Provision of car park management services

INFORMATION ON KNKH GROUP (Cont'd)

Subsidiaries	Place/ Date of incorporation	Issued and paid-up capital RM	Effective equity interest (%)	Principal activity
Kenanga Private Equity Sdn Bhd	Malaysia/ 14.3.1997	1,000,000	100	Venture capitalist
PSSB Corporate Services Sdn Bhd	Malaysia/ 14.4.1980	100,000,000	100	Dormant
SSSB Management Services Sdn Bhd	Malaysia/ 20.6.1991	180,000,000	100	Dormant
Kenanga Business Access Sdn Bhd	Malaysia/ 16.12.2002	50,000	100	Commission agent
KUT Nominees (Tempatan) Sdn Bhd	Malaysia/ 23.1.2002	2	100	Provision of nominee services
KUT Nominees (Asing) Sdn Bhd	Malaysia/ 23.1.2002	2	100	Provision of nominee services
Kenanga Capital Islamic Sdn Bhd	Malaysia/ 4.4.2011	2,000,000	100	Factoring and Leasing Businesses
Capital Investment Bank (Labuan) Limited	Malaysia/ 23.4.2004	USD2,631,579	100	Investment Bank
Kenanga Securities Custodian Sdn Bhd	Malaysia/ 30.1.1981	34,778	100	In Liquidation
Kenanga Smart Access Sdn Bhd	Malaysia/ 10.10.1997	14,982	100	In Liquidation
Peninsula Research Sdn Bhd	Malaysia/ 16.5.1996	530,050	100	In Liquidation
Sarawak Securities Futures Sdn Bhd	Malaysia/ 12.10.1995	7,021,310	100	In Liquidation

The associated companies of KNKH as at the LPD are as follows:

Associated companies	Place/ Date of Incorporation	Issued and Paid up capital	Effective equity interest	Principal activity
Kenanga Investment Corporation Ltd	Sri Lanka/ 28 November 2006	10,000,000 ordinary shares of Rupees 10 each	45%	Investment banking, corporate finance services and placements
Alwasatah Almaliyah Co.	Kingdom of Saudi Arabia/ 29 December 2007	25,000,000 shares of SAR10 each	29.6%	Providing underwriting, managing advisory, arranging, managing investment funds and custodian services
Kenanga Vietnam Securities Corporation	Vietnam/ 3 December 2007	135,000,000 Ordinary shares at par value of VND10,000 each	49%	Securities and advisory business

INFORMATION ON KNKH GROUP (Cont'd)
4. BOARD OF DIRECTORS

The Directors of KNKH and their respective shareholdings in KNKH as at the LPD are as follows:

Directors	Nationality	Designation	Direct		Indirect	
			No. of KNKH Shares	%	No. of KNKH Shares	%
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	Malaysian	Non-Independent Non-Executive Director ("NINED") and Chairman	100,969,770	16.50	43,500 ⁽¹⁾	0.01
Y Bhg Datuk Syed Ahmad Alwee Alsree	Singaporean	NINED and Deputy Chairman	-	-	-	-
Abdul Aziz Bin Hashim	Malaysian	NINED	29,753,712	4.86	26,464,115 ⁽¹⁾	4.33
Chay Wai Leong	Permanent Resident of Malaysia (Singaporean)	Group Managing Director	-	-	-	-
YM Raja Dato' Seri Abdul Aziz Bin Raja Salim	Malaysian	Independent Non-Executive Director ("INED")	-	-	-	-
Y Bhg Dato' Richard Alexander John Curtis	Permanent Resident of Malaysia (British)	NINED	-	-	-	-
Luigi Fortunato Ghirardello	Australian	INED	140,000	0.02	-	-
Kevin How Kow	Malaysian	INED	-	-	-	-
Izlan Bin Izhah	Malaysian	INED	-	-	-	-
Ismail Harith Merican	Malaysian	NINED	-	-	-	-
Raymond Yeoh	Malaysian	NINED	-	-	-	-
Cheng Seong						
Nilesh Navlakha	Indian	NINED	-	-	-	-

Note:

(1) Deemed interested by virtue of shares held by persons connected

5. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of KNKH and their respective shareholdings in KNKH as at the LPD are as follows:

Directors	Country of incorporation/ Nationality	Direct		Indirect	
		No. of KNKH Shares	%	No. of KNKH Shares	%
CMS Capital Sdn Bhd	Malaysia	153,353,000	25.07	-	-
Cahaya Mata Sarawak Berhad	Malaysia	-	-	153,353,000 ⁽¹⁾	25.07
Deutsche Asia Pacific Holdings Pte Ltd	Singapore	101,250,000	16.55	-	-
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	Malaysian	100,969,770	16.50	43,500 ⁽²⁾	0.01

Notes:

(1) Deemed interested by virtue of shares held by CMS Capital Sdn Bhd

(2) Deemed interested by virtue of shares held by person connected

INFORMATION ON KNKH GROUP (Cont'd)

6. HISTORICAL FINANCIAL INFORMATION

The summary of the key financial information of the KNKH Group based on its audited consolidated financial statements for the past three (3) FYE 31 December 2011 and the unaudited three (3)-month FPE 31 March 2012 is set out below:

	FYE 31 December 2009 RM'000	FYE 31 December 2010 (Restated) RM'000	FYE 31 December 2011 RM'000	3-month FPE 31 March 2012 RM'000
Revenue	247,689	296,341	276,907	84,040
(Loss)/ PBT	30,635	(50,630)	14,869	7,825
(Loss)/ PAT and non-controlling interest	16,169	(53,301)	7,401	6,112
No. of ordinary shares in issue ('000)	611,759	611,759	611,759	611,759
Gross EPS (sen) ⁽¹⁾	5.01	(8.28)	2.43	1.28
Net EPS (sen) ⁽²⁾	2.64	(8.71)	1.21	1.00
Shareholders' funds / NA	804,742	743,868	752,687	758,934
NA per share (RM) ⁽³⁾	1.32	1.22	1.23	1.24
Total interest-bearing borrowings (RM)	65,232	67,267	1,415	2,850
Gearing (times) ⁽⁴⁾	0.08	0.09	0.00 ⁽⁵⁾	0.00 ⁽⁵⁾

Notes:

- (1) Computed based on PBT divided by the number of ordinary shares in issue
(2) Computed based on PAT divided by the number of ordinary shares in issue
(3) Computed based on NA divided by the number of ordinary shares in issue
(4) Computed based on total interest-bearing borrowings divided by shareholders' funds
(5) Negligible

There were no exceptional and/or extraordinary items during the years under review. There have been no peculiar accounting policies adopted by the KNKH Group during the years under review and there have been no audit qualifications to its financial statements during the years under review.

Commentaries:**(i) FYE 31 December 2009**

During the FYE 31 December 2009, the Group recorded a PBT from continuing operations of RM30.64 million as compared to a loss of RM68.25 million in the preceding FYE 31 December 2008.

The PBT that arose during the FYE 31 December 2009 were due mainly to positive growth in net brokerage income earned by the equity division of the bank, lower allowances for loans, advances and financing and write back in allowance for balances on clients and brokers.

However, these profits were negated by RM2.59 million losses made in respect of the KNKH Group's share of losses in associated companies.

INFORMATION ON KNKH GROUP (Cont'd)

(ii) FYE 31 December 2010

During the FYE 31 December 2010, the KNKH Group recorded a loss before taxation from continuing operations of RM50.63 million as compared to a profit of RM30.64 million in the preceding FYE 31 December 2009.

For the FYE 31 December 2010, the loss was due mainly to impairment made in respect of the investment bank's loans, advances and financing amounting to RM88.45 million and impairment of investment in an associated company of RM17.69 million.

(iii) FYE 31 December 2011

During the FYE 31 December 2011, the KNKH Group recorded a PBT from continuing operations of RM14.87 million as compared to a loss of RM50.63 million in the preceding FYE 31 December 2010.

The PBT that arose during the FYE 31 December 2011 was due mainly to operational profits achieved by its investment banking, futures broker subsidiary companies and unit trust portfolio of RM11.48 million, and, bad debts recovery of RM15.87 million negated by impairment on loans, advances and financing and balances due from clients and brokers of RM6.19 million, and, share of losses in associates of RM5.88 million.

(iv) 3-month FPE 31 March 2012

During the 3-months FPE 31 March 2012, the KNKH Group reported a PBT from continuing operations of RM7.83 million.

The PBT that arose during the 3-months FPE 31 March 2012 was due to operational profits of RM2.38 million mainly from its investment bank and futures broker subsidiary companies, net write back of impairments of RM2.64 million primarily in respect of loans, advance and financing, and, share of profits in associates of RM2.81 million.

7. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed below, as at 31 December 2011, KNKH is not aware of any material commitments and contingent liabilities incurred or known to be incurred by the KNKH Group which upon becoming enforceable, may have an impact on the profits or NA of the KNKH Group:

(i) Material Commitments

Nature of Commitments	RM'000
(a) Underwriting Commitments	40,944
(b) Capital Commitments	
• Approved and contracted for capital expenditure	20,433
(c) Non-Cancellable Operating Lease Commitments	
(aa) Future minimum rental payable:-	
• within 1 year	15,686

INFORMATION ON KNKH GROUP (Cont'd)

Nature of Commitments	RM'000
<ul style="list-style-type: none"> • between 1 and 5 years • more than 5 years 	63,249 29,961 <hr style="width: 100%;"/> 108,896
(bb) Future minimum sublease receipts <ul style="list-style-type: none"> • External parties 	26,745
(d) Margin Commitments to extend credit with maturity of less than 1 year	505,512

Operating lease payments represent rentals payable for the use of office equipment and premises. The operating lease of the Group's premises is for an initial period of 10 years with an option to renew for another 5 years and subject to rates revisions every 3 years.

(ii) Contingent Liabilities

Nature of Contingent Liabilities	RM'000
(a) Contingent liability in respect of a guarantee issued by KIBB to Bursa Securities in relation to KIBB's obligations to contribute to the clearing guarantee fund.	813
(b) Contingent liability in respect of a letter of demand issued by an individual against KIBB demanding for the transfer of 10 million shares in a listed company purportedly subscribed at an Initial Public Offering ("IPO") price and allegedly held by KIBB's nominated agents in trust for the client. KIBB has lodged a police report on the matter as it was not a placement agent for these shares and was unaware of the purported transaction. During the mediation on 5 June 2012, the High Court Judge recorded that the mediation was unsuccessful and the case will now be reverted back to the Civil Court for case management and full trial. The Court proceeded with the case management on 6 June 2012 whereby pre-trial directions were given and fixed 30 July 2012 and 9 August 2012 for further case management. Tentative dates for full trial have been fixed from 15 October 2012 to 17 October 2012.	1,000
(c) Contingent liability in respect of two letters of demand issued by two individuals against KIBB demanding for the transfer to each of them of 550,000 shares in a listed company purportedly subscribed by them at an IPO price and allegedly held by KIBB's nominated agent in trust for them. KIBB has lodged a police report on the matter as it was not a placement agent for these shares and was unaware of these purported transactions. Currently the matter is fixed for further mediation on 5 June 2012. During the mediation on 5 June 2012, the High Court Judge recorded that the mediation was unsuccessful. The case will now be reverted back to the Civil Court for case management and full trial.	2,940

INFORMATION ON KNKH GROUP (Cont'd)

Nature of Contingent Liabilities	RM'000
(d) Contingent liability in respect of a writ of summons served on KIBB by an individual alleging that KIBB's nominated agent in trust represented that KIBB was the placement agent for the IPO shares of five listed companies. Payments for the shares were purportedly made to the nominated agent in trust. The individual alleges non-receipt of the IPO shares or any sales proceeds therefrom. The trial judge fixed deadlines for parties to file their respective submission and fixed the Plaintiff's claim for decision on 16 August 2012.	4,220
(e) Contingent liability in respect of legal proceedings initiated by KIBB against a client, wherein the client has defended and counter-claimed against KIBB. The case has been transferred to the Penang High Court and the hearing date has yet to be fixed.	1,000
(f) Contingent liability in respect of corporate guarantees provided by KNKH Group for subsidiary companies for credit facilities granted by licensed banks.	573,000
(g) Contingent liability in respect of corporate guarantee provided by KNKH Group for a subsidiary company to a counter party against cash collateral.	35,000

8. MATERIAL CONTRACTS

Save as disclosed below, the KNKH Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) during the past two (2) years preceding the LPD:

- (i) On 28 July 2010, KIBB entered into a tenancy agreement with OSK Trustee Berhad (as Trustee for Axis Real Estate Investment Trust) for the rental of the entire East Wing of Ground Floor, Level 1, 2, 3, 4 and 5 of a building bearing postal address No. 4, Lorong Persiaran Barat, 46100, Petaling Jaya for a period of three (3) years from 1 July 2010 to 30 June 2013. KIBB shall pay a monthly rental of RM163,795.30 for the period from 1 July 2010 to 31 October 2010 and RM193,665.40 for the period from 1 November 2010 to 30 June 2013 respectively.

9. MATERIAL LITIGATION

As at the LPD, save as disclosed below, the KNKH Group is not engaged in any material litigation, claims and/or arbitration either as plaintiff or defendant, which has a material effect on the financial position of the KNKH Group and the Board of Directors of KNKH is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of the KNKH Group:

- (i) **Kuala Lumpur High Court Suit ("High Court") No. S2-22-138-2008: Ahmad Adzha bin Kasmuni ("P1") & Ang Ek Choon ("P2") (collectively, "the Plaintiffs") v K & N Kenanga Berhad (now known as Kenanga Investment Bank Berhad) ("KIBB") & Anor (Third Parties: Faszul Hisham bin Mohamed ("D2") & 2 Ors)**

INFORMATION ON KNKH GROUP (Cont'd)

P1 and P2 made a claim against KIBB vide Writ of Summons and Statement of Claim dated 31 January 2008 and 31 December 2007 respectively, alleging that KIBB had offered them private placement shares at the price of RM1.70 per share, which was duly accepted by them through purported Letters of Offer dated 11 July 2006 and 12 July 2006 respectively. P1 and P2 are claiming for damages of RM1,470,000.00 each for the shares and loss of profit, for KIBB and/or D2 to transfer the shares to P1 and P2, damages as well as interest on the damages at the rate of 8% per annum from 31 January 2008 until full settlement and costs on a full indemnity basis.

KIBB has filed a defence denying any liability whatsoever to the Plaintiffs and has sought an order that the Plaintiff's claim be dismissed with costs. KIBB has also filed Third Party Notices on the Third Parties on 21 April 2008. During the mediation on 5 June 2012, the High Court Judge recorded that the mediation was unsuccessful. The case will now be reverted back to the Civil Court for case management and full trial.

KIBB's solicitors are of the opinion that the KNKH Group has a reasonable chance of defeating P2's claim against KIBB. As for P1's claim, the KNKH Group has a decent chance of defeating his claim against KIBB. KIBB has brought third party proceedings against the Third Parties for a full indemnity and/or contribution in the event that Plaintiffs' claim is allowed by the High Court.

- (ii) **Kuala Lumpur High Court Suit ("High Court") No. S4-22-354-2008: Ahmad Adzha bin Kasmuni ("Plaintiff") v K & N Kenanga Berhad (now known as Kenanga Investment Bank Berhad) ("KIBB") & Anor (Third Parties: Faszul Hisham bin Mohamad ("D2") & 3 Ors)**

The Plaintiff had filed a claim against KIBB and D2 vide Writ of Summons and Statement of Claim dated 25 March 2008 and 24 March 2008 alleging KIBB had offered the Plaintiff LNG Resources Bhd's shares by way of private placement at the price of RM0.21 per share, which was duly accepted by the Plaintiff through a purported Letter of Offer dated 5 July 2006. The Plaintiff has also premised his claim on a purported Letter of Undertaking dated 5 June 2006 for the sum of RM6,100,000.00. The Plaintiff is claiming for total damages of RM8,650,000.00, KIBB and/or D2 to transfer the said shares to the Plaintiff within seven (7) days from the date of the order and/or judgment, general damages as well as interest on the damages at the rate of 8% per annum from 24 March 2008 until full settlement and costs on a full indemnity basis.

KIBB has filed a defence denying any liability whatsoever to the Plaintiff and has sought an order that the Plaintiff's claim be dismissed with costs. KIBB has also filed Third Party Notices on the Third Parties on 2 June 2008. During the mediation on 5 June 2012, the High Court Judge recorded that the mediation was unsuccessful and the case will now be reverted back to the Civil Court for case management and full trial. Given the foregoing, the Senior Assistant Registrar proceeded with the case management on 6 June 2012 whereby pre-trial directions were given and subsequently proceeded to fix 30 July 2012 and 9 September 2012 for case management. Further, tentative dates for full trial have been fixed from 15 October 2012 to 17 October 2012.

KIBB's solicitors are of the opinion that the KNKH Group has a decent chance of defeating the Plaintiff's claim. KIBB has brought third party proceedings against the Third Parties for a full indemnity and/or contribution in the event the Plaintiff's claim is allowed by the High Court.

INFORMATION ON KNKH GROUP (Cont'd)

- (iii) **Kuala Lumpur High Court Suit (“High Court”) No. D5-22-2268-2008,:
Dato’ Liew Yuen Keong (“Plaintiff”) v K & N Kenanga Berhad (now known as
Kenanga Investment Bank Berhad) (“KIBB”) & Anor (Third Parties: Fasrul
Hisham bin Mohamad & Anor)**

The Plaintiff’s claim against KIBB is premised upon, inter alia, purported Letters of Offer alleging that KIBB had offered the Plaintiff to subscribe shares of a few public listed companies by way of private placements in various initial public offerings of the said shares. The Plaintiff is claiming for a sum of RM3,555,000.00, which was allegedly paid by way of various banker’s drafts, substantial loss on alleged loss of profit of the said shares in the sum of RM665,000.00, general damages as well as interest of 8% per annum on the damages and costs.

The Writ of Summons and Statement of Claim was served on KIBB on 30 December 2008 and KIBB has filed a defence denying any liability whatsoever to the Plaintiff and has sought an order that the Plaintiff’s claim be dismissed with costs. KIBB has also filed a Third Party Notice on the Third Parties on 20 January 2009.

The trial judge fixed deadlines for parties to file their respective submissions and fixed the Plaintiff’s claim for decision on 16 August 2012.

KIBB’s solicitors are of the opinion that the KNKH Group has a reasonable chance of defeating the Plaintiff’s claim against KIBB. KIBB has brought third party proceedings against the Third Parties for a full indemnity and/or contribution in the event the Plaintiff’s claim is allowed by the High Court.

- (iv) **Kuching High Court Suit No.: KCH-22-90-2011:
Swee Joo Berhad (“SJB”) & 9 Ors (collectively “Plaintiffs”) v KIBB**

KIBB was served on 20 May 2011 with a Writ of Summons and a Summons in Chambers by SJB and Asia Bulkers Sdn Bhd together with eight (8) other Plaintiffs, claiming for several injunctive and declarative reliefs and general and punitive damages together with interest and costs against KIBB.

The Plaintiffs’ claims arose from their dispute over the Memorandum of Deposit of Shares (“MODs”) executed by eight (8) of the Plaintiffs whereby they had charged SJB’s shares to KIBB as security for repayment of a term loan of RM120,000,000.00 granted to SJB (“Term Loan”). The eight (8) other Plaintiffs who executed the MODs are shareholders and/or directors of SJB.

The proceedings have arisen as a result of SJB’s default in repayment of the said Term Loan. The essence of the Plaintiffs’ claim is to set aside the MODs and to claim for damages. KIBB had filed its defence and counter claims. The aforementioned Summons in Chambers application filed by the Plaintiffs for an injunction to restrain KIBB from dealing with the MODs was dismissed by the Kuching High Court on 26 September 2011.

On 28 March 2012, the Kuching High Court granted the Plaintiffs leave to amend their Statement of Claim. The amended Statement of Claim now includes allegations of misrepresentation and mutual mistake part or unilateral mistake on the Plaintiffs’ part as induced fraudulently by KIBB.

The Kuching High Court has also ordered the above matter to be heard together with KIBB’s recovery action, on the same trial dates. The trial is now scheduled on 8 to 25 October 2012 in Kuching High Court.

INFORMATION ON KNKH GROUP (Cont'd)

KIBB's solicitors are of the view that the terms of the MOD are clear and KIBB should have a fair chance of successfully opposing the claim against KIBB.

(v) **Kuching High Court Suit No.: KCH-22-5/1-2012:
KIBB v Sim Swee Joo Holding Sdn Bhd & 7 Ors**

On 12 July 2011, KIBB through its solicitors demanded from the borrower, Swee Joo Berhad ("**SJB**"), the two corporate guarantors (i.e. Asia Bulkers Sdn Bhd and Johan Shipping Sdn Bhd), and the 8 shares chargors ("**Shares Chargors**") for the total outstanding sums due under the term loan of RM120,000,000.00 granted to SJB ("**Term Loan**") as all of them defaulted in repayment to KIBB. On 11 July 2011, SJB, Asia Bulkers Sdn Bhd and Johan Shipping Sdn Bhd were voluntarily wound up. KIBB had filed its Proof of Debt with the liquidator for these three (3) companies.

KIBB had exercised its right under the Memorandum of Deposit of Shares ("**MOD**") against the Shares Chargors for defaulting, by disposing the charged shares on 15 November 2011 to utilise the share sale proceeds to reduce the total outstanding balance due under the Term Loan (leaving a 'shortfall sum' of RM124,536,136.89 due as at 18 November 2011). KIBB had subsequently demanded for the 'shortfall sum' from the Shares Chargors, which the Shares Chargors again defaulted.

KIBB is claiming from the Shares Chargors a sum of RM124,536,136.89 due as at 18 November 2011 with interest thereon at the rate of 3.5% per annum above KIBB's cost of funds, compounded monthly from 19 November 2011 to date of full settlement.

The trial for this claim is fixed from 8 October 2012 to 25 October 2012 in the Kuching High Court.

KIBB's solicitors are of the view that the terms of the MOD are clear and KIBB should have a fair chance of succeeding in its suit.

(vi) **Shah Alam High Court Suit No.: 22-1755-2009:
Zainal Abidin bin Abas ("Plaintiff") v Kenanga Capital Sdn Bhd ("Kenanga Capital")**

The Plaintiff and Kenanga Capital entered into Money Lending Agreements dated 29 July 2008 and 30 October 2008 respectively, as part-financing for subscription of shares. The collateral pledged for the financing were shares (9,271,300 for Perwaja Holdings Berhad and 9,774,284 for Pentamaster Berhad) ("**Pledged Collateral Shares**"). Due to unfavourable market price, the share margin ratio between the value of Pledged Collateral Shares and the facility amount was breached and the Pledged Collateral Shares were force sold.

The Plaintiff filed a Writ of Summons and Statement of Claim on 26 November 2009 to recover and acquire back the Pledged Collateral Shares. The Plaintiff's claim is for among others, breaches of contract, negligence and fraudulent misrepresentation. The Plaintiff alleged that Kenanga Capital breached the Money Lending Agreements and that Kenanga Capital was negligent when it disposed off the Pledged Collateral Shares.

The Shah Alam High Court allowed Kenanga Capital's application to strike out the Plaintiff's claim on 14 January 2011. The Plaintiff filed a notice of appeal against the High Court Order and parties have yet to obtain a hearing date for the same from the Court of Appeal.

Kenanga Capital's solicitors are of the opinion that Kenanga Capital has a reasonably good prospect in opposing the Plaintiff's appeal.

INFORMATION ON KMKH GROUP (Cont'd)

10. LATEST AUDITED FINANCIAL STATEMENTS

The audited financial statements (together with the notes to the financial statements) and the independent auditors' report thereon of KMKH Group for the FYE 31 December 2011 are set out in the ensuing pages.

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INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
Directors' report

The directors present their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2011.

Principal activities

The principal activities of the Company are that of investment holding and provision of management services. The principal activities of subsidiary companies are set out in Note 11 to the financial statements.

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

Results

	Group RM'000	Company RM'000
Profit/(loss) after tax from continuing operations	17,954	(9,648)
Loss for the year from discontinued operation	(236)	-
Share of results in associates	(5,877)	-
Profit/(loss) for the year	<u>11,841</u>	<u>(9,648)</u>
Attributable to:		
Equity holders of the Company	7,401	(9,648)
Non-controlling interests	4,440	-
Profit/(loss) for the year	<u>11,841</u>	<u>(9,648)</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

No dividend has been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividend in respect of the current financial year.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Directors

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail
Y Bhg Datuk Syed Ahmad Alwee Alsree
Encik Abdul Aziz Bin Hashim
YM Raja Dato' Seri Abdul Aziz Bin Raja Salim
Mr Chay Wai Leong (Appointed on 17 May 2011)
Dato' Richard Alexander John Curtis
Mr Luigi Fortunato Ghirardello
Mr Kevin How Kow
Encik Ismail Harith Merican
Mr Bruce Kho Yaw Huat (Resigned on 1 January 2012)
Mr Raymond Yeoh Cheng Seong
Mr Nilesh Navlakha
Encik Izlan Bin Izhab

Directors' interests

The following directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act 1965, interests in shares in the Company as stated below:

	Number of Ordinary Shares of RM1 each			
	At 1.1.2011	Acquired	Sold	At 31.12.2011
The Company				
Direct Interest:				
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	100,969,770	-	-	100,969,770
Encik Abdul Aziz Bin Hashim	29,753,712	-	-	29,753,712
Mr Luigi Fortunato Ghirardello	-	140,000	-	140,000
Deemed Interest:				
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail *	43,500	-	-	43,500
Encik Ismail Harith Merican *	100,969,770	-	-	100,969,770
Encik Abdul Aziz Bin Hashim *	26,464,115	-	-	26,464,115

* Deemed interest by virtue of shares held by persons connected to them.

None of the other directors who held office at the end of the year had any interest in shares of the Company and its related corporations during the financial year.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****Directors' benefits**

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby directors might acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full time employee of the Company as shown in Note 34 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest required to be disclosed by Section 169(8) of the Companies Act 1965.

Other statutory information

- (a) Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the consolidated financial statements misleading.
- (d) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****Other statutory information (cont'd.)**

(e) At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.


(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the Group or of the Company for the financial year in which this report is made.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 5 March 2012.



YM Tengku Dato' Paduka Noor
Zakiah Binti Tengku Ismail



Chay Wai Leong

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

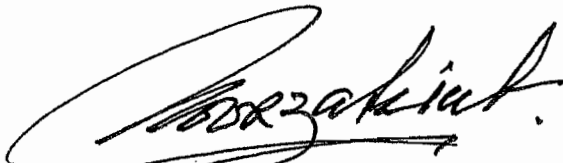
K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Statement by directors**Pursuant to Section 169(15) of the Companies Act, 1965**

We, YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail and Chay Wai Leong, being two of the directors of K & N Kenanga Holdings Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 9 to 146 are drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of the results and the cash flows of the Group and of the Company for the year then ended.

The information set out in Note 48 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 5 March 2012.



YM Tengku Dato' Paduka Noor
Zakiah Binti Tengku Ismail

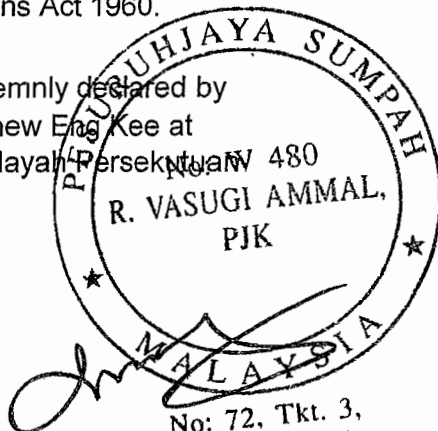
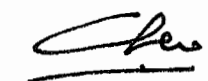


Chay Wai Leong

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

I, Chew Eng Kee, being the person primarily responsible for the financial management of K & N Kenanga Holdings Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 9 to 146 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.

Subscribed and solemnly declared by
the abovenamed Chew Eng Kee at
Kuala Lumpur in Wilayah Persekutuan
on 5 March 2012

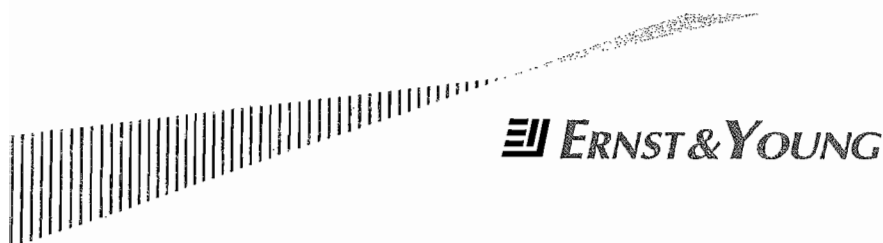



Chew Eng Kee

Before me,

No: 72, Tkt. 3,
Jalan Mega Mendung,
Bandar Kompleks,
58200 Kuala Lumpur.

INFORMATION ON KNKH GROUP (Cont'd)



302859-X

**Independent auditors' report to the members of
K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of K & N Kenanga Holdings Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 145.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

INFORMATION ON KNKH GROUP (Cont'd)



302859-X

**Independent auditors' report to the members of
K & N Kenanga Holdings Berhad (cont'd.)
(Incorporated in Malaysia)***Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2011 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

Other matters

The supplementary information set out in Note 48 on page 146 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guideline and the directive of Bursa Malaysia Securities Berhad.

INFORMATION ON KNKH GROUP (Cont'd)



302859-X

Independent auditors' report to the members of
K & N Kenanga Holdings Berhad (cont'd.)
(Incorporated in Malaysia)

Other matters (cont'd.)

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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
5 March 2012

A handwritten signature in cursive script that reads 'Gloria Goh Ewe Gim'.

Gloria Goh Ewe Gim
No. 1685/04/13(J)
Chartered Accountant

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)Statements of financial position
As at 31 December 2011

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Assets					
Cash and short-term funds	3	1,321,052	1,300,957	13,074	37,435
Deposits and placements with banks and other financial institutions	4	375	847	-	-
Financial assets held-for-trading	5	241,218	303,199	25,450	21,422
Financial investments available-for-sale	6	849,087	757,315	-	-
Loans, advances and financing	7	547,353	605,264	-	-
Balances due from clients and brokers	8	179,315	256,344	-	-
Other assets	9	232,432	120,637	16,691	13,743
Statutory deposit with Bank Negara Malaysia	10	39,490	9,150	-	-
Investments in subsidiaries	11	-	-	630,337	615,994
Investments in associates	12	44,297	49,102	13,360	20,210
Property, plant and equipment	13	26,356	22,466	1,507	643
Tax recoverable		13,640	19,122	5,438	5,438
Deferred tax assets	15	13,970	15,558	-	-
Intangible assets	16	80,306	81,345	18	130
Asset classified as held for sale	14	6,085	6,332	-	-
Total assets		3,594,976	3,547,638	705,875	715,015
Liabilities and equity					
Deposits from customers	17	1,031,980	1,012,577	-	-
Deposits and placements of banks and other financial institutions	18	827,902	806,689	-	-
Other liabilities	19	950,599	880,524	1,054	1,484
Provision	20	19,354	17,054	4,353	2,928
Derivative financial liabilities	21	2,145	1,571	-	-
Subordinated obligations	22	1,384	1,510	-	-
Borrowings	23	31	65,757	-	-
Liabilities directly associated with assets held for sale	14	21	9	-	-
Provision for tax		197	239	-	-
Deferred tax liabilities	15	1,714	2,134	1,613	2,100
Total liabilities		2,835,327	2,788,064	7,020	6,512

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
**Statements of financial position (cont'd.)
As at 31 December 2011**

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Share capital	24	611,759	611,759	611,759	611,759
Reserves	25	140,928	132,109	87,096	96,744
Equity attributable to equity holders of the company		752,687	743,868	698,855	708,503
Non-controlling interests		6,962	15,706	-	-
Total equity		759,649	759,574	698,855	708,503
Total liabilities and equity		3,594,976	3,547,638	705,875	715,015
Commitments and contingencies	39	546,456	667,916	-	-

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
**Statements of comprehensive income
For the year ended 31 December 2011**

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Continuing operations					
Operating revenue	26	276,907	296,341	13,831	28,972
Interest income	27	110,175	111,094	2,169	1,854
Interest expense	28	(58,539)	(43,809)	-	-
Net interest income		51,636	67,285	2,169	1,854
Other operating income	29	184,988	196,839	11,650	27,202
Net income		236,624	264,124	13,819	29,056
Other operating expenses	30	(225,140)	(206,304)	(17,104)	(20,314)
Operating profit/(loss)		11,484	57,820	(3,285)	8,742
Impairment allowance on loans, advances and financing	31	(4,067)	(88,450)	-	-
Write back of impairment allowance on balances due from clients, brokers and other receivables	32	13,748	1,791	-	-
Impairment losses on investments in associates		(419)	(17,689)	(6,850)	-
		20,746	(46,528)	(10,135)	8,742
Share of results in associates		(5,877)	(4,102)	-	-
Profit/(loss) before taxation		14,869	(50,630)	(10,135)	8,742
Income tax expense	36	(2,792)	5,795	487	(350)
Profit/(loss) for the year from continuing operations		12,077	(44,835)	(9,648)	8,392
Discontinued operation					
Loss for the year from discontinued operation	14	(236)	(448)	-	-
Profit/(loss) for the year		11,841	(45,283)	(9,648)	8,392

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
Statements of comprehensive income
For the year ended 31 December 2011 (cont'd.)

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Other comprehensive income					
Foreign exchange differences on consolidation		1,509	(8,255)	-	-
Net (loss)/gain on fair value changes of financial investments available-for-sale		(91)	3,129	-	-
Other comprehensive income/(losses) for the year		1,418	(5,126)	-	-
Total comprehensive income/(losses) for the year		<u>13,259</u>	<u>(50,409)</u>	<u>(9,648)</u>	<u>8,392</u>
Profit/(Loss) for the year attributable to:					
Equity holders of the Company		7,401	(53,301)	(9,648)	8,392
Non-controlling interests		4,440	8,018	-	-
		<u>11,841</u>	<u>(45,283)</u>	<u>(9,648)</u>	<u>8,392</u>
Total comprehensive income/(losses) attributable to:					
Equity holders of the Company		8,819	(58,427)	(9,648)	8,392
Non-controlling interests		4,440	8,018	-	-
		<u>13,259</u>	<u>(50,409)</u>	<u>(9,648)</u>	<u>8,392</u>
				Group	
				2011	2010
Earnings/(loss) per share	37				
attributable to equity holders of the Company (sen per share)					
Basic/diluted profit/(loss) from continuing operations				1.25	(8.64)
Basic loss from discontinued operation				(0.04)	(0.07)
Basic/diluted profit/(loss) for the year				<u>1.21</u>	<u>(8.71)</u>

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Consolidated statement of changes in equity
For the year ended 31 December 2011

	Attributable to Equity Holders of the Company ----->									
	Share Capital (Note 24) RM'000	Capital Reserve (Note 25) RM'000	Share Premium (Note 25) RM'000	Non-distributable Exchange Reserve (Note 25) RM'000	Fair Value Reserve (Note 25) RM'000	Statutory Reserve (Note 25) RM'000	Distributable Retained Profits (Note 25) RM'000	Total	Non- controlling Interests RM'000	Total Equity RM'000
At 1 January 2011	611,759	71,952	75	(9,645)	2,930	57,458	9,339	743,868	15,706	759,574
Total comprehensive income/ (loss) for the year	-	-	-	1,509	(91)	-	7,401	8,819	4,440	13,259
Transfer to statutory reserve	-	-	-	-	-	8,241	(8,241)	-	-	-
Derecognition of Special Purpose Entities (Note 11)	-	-	-	-	-	-	-	-	(13,184)	(13,184)
At 31 December 2011	611,759	71,952	75	(8,136)	2,839	65,699	8,499	752,687	6,962	759,649

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Consolidated statement of changes in equity
For the year ended 31 December 2011 (cont'd.)

	Attributable to Equity Holders of the Company									
	Share Capital (Note 24) RM'000	Capital Reserve (Note 25) RM'000	Share Premium (Note 25) RM'000	Non-distributable Share Exchange Reserve (Note 25) RM'000	Fair Value Reserve (Note 25) RM'000	Statutory Reserve (Note 25) RM'000	Distributable Retained Profits (Note 25) RM'000	Total RM'000	Non-controlling Interests RM'000	Total Equity RM'000
At 1 January 2010	611,759	71,952	75	(1,390)	(199)	57,458	65,087	804,742	9,849	814,591
FRS 139 adjustments	-	-	-	-	-	-	2,141	2,141	-	2,141
As restated	611,759	71,952	75	(1,390)	(199)	57,458	67,228	806,883	9,849	816,732
Total comprehensive (loss)/ income for the year	-	-	-	(8,255)	3,129	-	(53,301)	(58,427)	8,018	(50,409)
Transactions with owners										
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(2,161)	(2,161)
Dividend (Note 38)	-	-	-	-	-	-	(4,588)	(4,588)	-	(4,588)
Total transactions with owners	-	-	-	-	-	-	(4,588)	(4,588)	(2,161)	(6,749)
At 31 December 2010	611,759	71,952	75	(9,645)	2,930	57,458	9,339	743,868	15,706	759,574

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
Statement of changes in equity
For the year ended 31 December 2011
Company

	Note	Non-distributable Share Capital (Note 24) RM'000	Share Premium (Note 25) RM'000	Distributable Retained Profits (Note 25) RM'000	Total Equity RM'000
At 1 January 2010		611,759	75	92,865	704,699
Total comprehensive income		-	-	8,392	8,392
Transactions with owners					
- Dividend paid	38	-	-	(4,588)	(4,588)
At 31 December 2010		611,759	75	96,669	708,503
At 1 January 2011		611,759	75	96,669	708,503
Total comprehensive loss		-	-	(9,648)	(9,648)
At 31 December 2011		611,759	75	87,021	698,855

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
Consolidated statement of cash flows
For the year ended 31 December 2011

	Group	
	2011	2010
	RM'000	RM'000
Cash flows from operating activities		
Profit/(loss) before taxation		
Continuing operations	14,869	(50,630)
Discontinued operation	(236)	(443)
Adjustments for:		
Depreciation and amortisation:		
Continuing operations	7,476	7,662
Discontinued operation	15	23
Share of results in associates	5,877	4,102
Interest income	(70,745)	(77,299)
Interest on financial assets held-for-trading	(7,546)	(5,832)
Interest on financial investments available-for-sale	(31,884)	(27,963)
Finance cost on borrowings:		
Continuing operations	1,404	1
Gross dividend income	(1,413)	(2,634)
Net gain from sale of financial investments	(8,735)	(9,680)
Impairment allowances on balances due from clients and brokers	2,124	506
Impairment allowances on loans, advances and financing	4,073	88,455
Unrealised gains on revaluation of financial assets held-for-trading	(5,384)	(6,620)
Property, plant and equipment written off	830	476
Unrealised foreign exchange gain on financial investments	(737)	(736)
Gain on disposal of property, plant and equipment	(29)	(698)
Impairment loss on investments in associates	419	17,689
Changes in working capital:		
Receivables	3,028	58,758
Trust deposits and accounts with licensed banks and financial institutions	(41,183)	(16,248)
Amount held in trust	29,622	29,598
Statutory deposit with Bank Negara Malaysia	(30,340)	-
Payables	84,701	621,455
Cash generated from operations	(43,794)	629,942
Net tax refund	3,695	132
Dividend received	1,413	2,270
Interest received	70,745	77,299
Net cash generated from operating activities	32,059	709,643

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Consolidated statement of cash flows
For the year ended 31 December 2011 (cont'd.)

	Note	Group 2011 RM'000	2010 RM'000
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(11,500)	(6,074)
Acquisition of shares in a subsidiary company		-	(11,125)
Dividend received from an associate		18	24
Interest income from financial assets held-for-trading and financial investments available-for-sale		39,430	33,795
Acquisition of financial investments - net		(87,635)	(235,248)
Net cash outflow from deconsolidation of Special Purpose Entities		(551)	-
Proceeds from sale of financial investments		73,560	-
Proceeds from disposal of property, plant and equipment		372	1,312
Net cash generated from/(used in) investing activities		<u>13,694</u>	<u>(217,316)</u>
Cash flows from financing activities			
Interest paid		(1,404)	(2,609)
Dividend paid to non-controlling interests		-	(2,161)
Net repayment of borrowings		-	2,000
Drawdown/(repayment) of hire purchase and finance lease		182	(30)
Short term loan repayment		(602,052)	-
Long term loan drawdown		536,200	-
Dividend paid		-	(4,588)
Net cash used in financing activities		<u>(67,074)</u>	<u>(7,388)</u>
Net changes in cash and cash equivalents		(21,321)	484,939
Cash and cash equivalents at beginning of year		819,548	334,609
Cash and cash equivalents at end of year		<u>798,227</u>	<u>819,548</u>
Cash and cash equivalents at end of year comprise:			
Cash and short term funds	3	792,182	813,271
Cash and bank balances classified as asset held-for-sale	14	6,045	6,277
		<u>798,227</u>	<u>819,548</u>

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2011

	Company	
	2011	2010
	RM'000	RM'000
Cash flows from operating activities		
(Loss)/profit before taxation	(10,135)	8,742
Adjustments for:		
Depreciation and amortisation	455	373
Interest income	(2,169)	(1,738)
Interest on financial assets held-for-trading	-	(116)
Gross dividend income	(18)	(8,906)
Unrealised gain on revaluation of financial investments held-for-trading	(4,028)	(5,235)
Waiver of intercompany balances	(31)	(56)
Loss/(gain) on disposal of property, plant and equipment	23	(28)
Net gain arising from sale of financial investments	-	(8,315)
Impairment loss on investment in an associate	6,850	-
Operating loss before working capital changes	(9,053)	(15,279)
Changes in working capital:		
Receivables	(220)	252
Intercompany	(16,623)	671
Payables	578	1,622
Cash used in operations	(25,318)	(12,734)
Dividends received	18	6,815
Interest received	2,169	1,738
Net cash used in operating activities	<u>(23,131)</u>	<u>(4,181)</u>
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	164	35
Investment in a subsidiary company	-	(40,000)
Interest income on financial assets held-for-trading	-	116
Acquisition of investments	-	(18,206)
Purchase of property, plant and equipment	(1,394)	(90)
Proceeds from disposal of investments	-	51,644
Net cash used in investing activities	<u>(1,230)</u>	<u>(6,501)</u>

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

Statement of cash flows

For the year ended 31 December 2011 (cont'd.)

	Note	Company	
		2011 RM'000	2010 RM'000
Cash flows from financing activities			
Dividend paid		-	(4,588)
Net cash used in financing activities		-	(4,588)
Net changes in cash and cash equivalents		(24,361)	(15,270)
Cash and cash equivalents at beginning of year		37,435	52,705
Cash and cash equivalents at end of year		13,074	37,435
Cash and cash equivalents at end of year comprise:			
Cash and short-term funds	3	13,074	37,435

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**Notes to the financial statements - 31 December 2011****1. Corporate information**

The principal activities of the Company are investment holding and provision of management services. The principal activities of subsidiary companies are set out in Note 11 to the financial statements. There have been no significant changes in the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office is located at 8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The financial statements were authorised for issue by the board of directors in accordance with a resolution of the directors on 5 March 2012.

2. Significant accounting policies**2.1 Basis of preparation**

The financial statements comply with the provisions of the Companies Act, 1965 and Financial Reporting Standards ("FRSs") in Malaysia as modified by Bank Negara Malaysia ("BNM") Guidelines.

The financial statements of the Group and of the Company have been prepared on a historical basis unless otherwise indicated in the accounting policies below.

The accounting policies adopted by the Group are consistent with those adopted in the previous financial year except for new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2011 as described in Note 2.2.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000"), unless otherwise stated.

In the preparation of the financial statements, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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 2.5 to the financial statements.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.2 Changes in accounting policies**

The accounting policies adopted by the Group are consistent with those adopted in the previous financial year except as follows:

On 1 January 2011, the Group adopted the following new and amended FRSs and IC Interpretations mandatory for the annual financial periods as follows:

	Effective for financial period beginning on or after
Amendments to FRS 132: Financial Instruments: Presentations - Classification of Rights Issues	1 March 2010
FRS 1: First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combinations	1 July 2010
FRS 127: Consolidated and Separate Financial Statements	1 July 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
Amendments to FRS 2: Share-based Payment	1 July 2010
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued operations	1 July 2010
Amendments to FRS 138: Intangible Assets	1 July 2010
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distribution of Non-Cash Assets to Owners	1 July 2010
IC Interpretation 4: Determining Whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011
Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
TR i-4: Shariah Compliant Sale Contracts	1 January 2011
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"	1 January 2011

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group except for those discussed below:

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.2 Changes in accounting policies (cont'd.)**FRS 3: Business Combinations

The revised FRS 3 introduces the option, on an acquisition-by-acquisition basis, to measure non-controlling interest in a business combination either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets acquired. Goodwill is measured as the difference between the aggregate of the fair value of consideration transferred, any non-controlling interest in the acquiree and the fair value at acquisition date of any previously held equity interest in the acquiree, and the net identifiable assets acquired. Any negative goodwill (ie. bargain purchase) is recognised in the profit or loss. Any consideration transferred in a business combination is measured at fair value as at the acquisition date. There is no financial impact immediately upon adoption of this standard as it only has prospective effect, and hence the adoption will only have impact on future acquisitions of the Group.

Amendment to FRS 7: Improving Disclosures about Financial Instruments

Disclosures on fair value and liquidity have been enhanced upon the adoption of this amendment. In particular, financial instruments measured at fair value are disclosed by class in a three-level fair value measurement hierarchy, with specific disclosures related to transfers between levels in the hierarchy and detailed disclosures on level three of the fair value hierarchy. Certain disclosures on liquidity are also modified. The adoption of this amendment resulted in additional disclosures but did not have any financial impact to the Group.

FRS 127: Consolidated and Separate Financial Statements

The main change introduced under the revised FRS 127 will be the accounting for changes in ownership interest in a subsidiary, where changes in ownership which do not result in the loss of control are now accounted for within equity instead of the profit or loss. Where changes in ownership interest result in loss of control, any remaining interest is remeasured at fair value and a gain or loss is recognised in the profit or loss. Minority interest is now referred to as "non-controlling interest". All total comprehensive income is proportionately allocated to non-controlling interest, even if it results in the non-controlling interests having a deficit balance. There is no financial impact immediately upon adoption of this standard as it only has prospective effect, and hence the adoption will only have impact on future acquisitions of the Group.

2.3 Malaysian Financial Reporting Standards

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.3 Malaysian Financial Reporting Standards (cont'd.)**

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

The Group will fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

2.4 Summary of significant accounting policies**(a) Subsidiaries and basis of consolidation****(i) Subsidiaries**

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.4(h)(ii).

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(a) Subsidiaries and basis of consolidation (cont'd.)****(i) Subsidiaries (cont'd.)**

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in statements of comprehensive income.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses from intra-group transactions are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. The accounting policy for goodwill is set out in Note 2.4(c)(i). Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in statements of comprehensive income.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.4 Summary of significant accounting policies (cont'd.)****(a) Subsidiaries and basis of consolidation (cont'd.)****(iii) Transactions with non-controlling interests**

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

(b) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated statements of comprehensive income. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(b) Associates (cont'd.)**

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investment in associate is stated at cost less impairment losses.

On disposal of such investment, the difference between the sales proceeds and its carrying amount is included in the statements of comprehensive income.

(c) Intangible assets**(i) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(c) Intangible assets (cont'd.)****(i) Goodwill (cont'd.)**

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the statements of comprehensive income. Impairment losses recognised for goodwill are not reversed in subsequent periods. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.4(h)(i).

(ii) Merchant banking licence

This represents the contribution to Bank Negara Malaysia for a licence to carry on merchant banking business by a subsidiary company to transform the subsidiary company from a licensed broker into an investment bank. The merchant banking licence has indefinite useful life and is stated at cost less accumulated impairment losses.

The merchant banking licence is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment loss is recognised in the statement of comprehensive income.

(iii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.4 Summary of significant accounting policies (cont'd.)****(c) Intangible assets (cont'd.)****(iii) Other intangible assets (cont'd.)**

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

Intangible assets are amortised over their finite useful lives at the following annual rate:

Computer software licence	33.33%
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(d) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(e) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.4(h)(ii).

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.4 Summary of significant accounting policies (cont'd.)****(e) Property, plant and equipment and depreciation (cont'd.)**

Capital work-in-progress are not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Motor vehicles	16% to 25%
Computer equipment	20% to 33.33%
Office equipment	10% to 33.33%
Furniture and fittings	10% to 20%
Research library	20%
Renovation	10%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in statements of comprehensive income.

(f) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

(i) Initial recognition and subsequent measurement

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of their financial assets at initial recognition, and the categories include cash and bank balances, financial assets at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial investments available-for-sale.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(f) Financial assets (cont'd.)****(i) Initial recognition and subsequent measurement (cont'd.)****(1) Financial assets at fair value through profit or loss**

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term. The Group did not designate any financial investments other than those held for trading valued at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in statements of comprehensive income. Net gains or losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest income and dividend income are included in the statements of comprehensive income.

Derivatives are classified as held-for-trading unless they are designated as hedging instruments. The specific accounting policy on derivatives is detailed in Note 2.4(l).

(2) Loans and receivables

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

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; or
- those that the Group upon initial recognition designates as available-for-sale.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(f) Financial assets (cont'd.)****(i) Initial recognition and subsequent measurement (cont'd.)****(2) Loans and receivables (cont'd.)**

Loans, advances and financing are stated at outstanding principal and interest less any impairment charges on loans, advances and financing. Subsequent to initial recognition, loans, advances and financing are measured at amortised cost using the effective interest rate method.

(a) Share margin accounts financing

In accordance with the Rules of Bursa Malaysia Securities Berhad, individual impairment assessment is made for margin accounts deficits, after taking into consideration the realisable value of collateral. Collective impairment assessment based on a percentage of total outstanding balances due from margin clients, net of individual impairment, is maintained by the Group.

Interest income on these accounts is suspended when they are considered impaired in accordance with the Rules of Bursa Malaysia Securities Berhad and are only recognised upon full receipts of all arrears. Interest-in-suspense forms part of the individual assessment impairment allowances.

(b) Loans and advances

Individual impairment allowance for an impaired debt is made with regard to specific risks and relate to those loans and advances that have been individually reviewed and specifically identified as impaired.

Collective impairment allowance based on a percentage of total outstanding loans (including unearned interest), net of individual impairment allowance, is maintained by the Group. This is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing whereby the Group maintains collective impairment allowances of at least 1.5% of total outstanding loans, net of individual impairment allowances under the transitional provisions in the guidelines.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.4 Summary of significant accounting policies (cont'd.)****(f) Financial assets (cont'd.)****(i) Initial recognition and subsequent measurement (cont'd.)****(2) Loans and receivables (cont'd.)****(b) Loans and advances (cont'd.)**

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

The allowances for impaired loans and advances of the Group are computed in compliance with the Guidelines on the Classification and Impairment Provisions for Loans/Financing issued by BNM.

The policy for the recognition and measurement of impairment losses is in accordance with Note 2.4(g)(i).

(3) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has intention and ability to hold to maturity. After initial measurement, financial investments held-to-maturity are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR method. The amortisation and losses arising from impairment of such investments are recognised in the statements of comprehensive income.

If the Group were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

(4) Financial investments available-for-sale

Financial investments classified as available-for-sale are non derivatives that are either designated as available for sale or not classified in any other categories.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(f) Financial assets (cont'd.)****(i) Initial recognition and subsequent measurement (cont'd.)****(4) Financial investments available-for-sale (cont'd.)**

After initial recognition, financial investments available-for-sale are measured at fair value. Any gains or losses from changes in fair value of the financial investments are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in the statements of comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to statements of comprehensive income as a reclassification adjustment when the financial investment is derecognised. Interest income calculated using the effective method is recognised in statements of comprehensive income. Dividends on an available-for-sale equity instrument are recognised in statements of comprehensive income when the Group's right to receive payment is established.

Investment in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

(5) Balances due from clients and brokers

Balances due from clients and brokers represent the amounts receivable in respect of outstanding contracts, contra losses and interests, excluding share margin accounts financing.

In accordance with the Rules of Bursa Malaysia Securities Berhad, individual impairment provisions are made for irrecoverable contra losses and overdue outstanding positions, after taking into consideration the realisable value of collateral.

(6) Other assets

Other assets include other receivables are carried at anticipated realisable values. Impaired accounts are written-off when identified. An estimate is made for impairment allowance based on a review of all outstanding amounts as at the reporting date.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(f) Financial assets (cont'd.)****(ii) Derecognition**

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of asset within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, that is, the day that the Group commit to purchase or sell the asset.

(iii) Reclassification of financial assets

Reclassifications are made at fair value as of the reclassification date. The fair value becomes the new cost or amortised cost as applicable. Any gain or loss already recognised before the reclassification date is not reversed.

As allowed by the Guidelines on Financial Reporting for Banking Institutions issued by BNM, the Bank subsidiary had previously classified as 'held-to-maturity' investments in equity holdings in organisations which are set up for specific socio-economic reasons and the reclassification of these instruments to 'available-for-sale' shall not be subject to the 'tainting' rules when the requirements under FRS 139 Financial Instruments: Recognition and Measurement are first applied.

(iv) Determination of fair value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is the transact price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of the financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 46.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(f) Financial assets (cont'd.)****(iv) Determination of fair value (cont'd.)**

Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost, and assessed for impairment at each reporting date.

FRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following hierarchy is used for determining and disclosing the fair value of financial instruments:

Level 1 - quoted market prices: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques using observable inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used;

Level 3 - valuation techniques with significant unobservable inputs: inputs used are not based on observable market data.

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes from Bloomberg.

(g) Impairment of financial assets

The carrying amounts of the Group's assets, except for deferred tax assets and financial assets (other than financial investments held-to-maturity and financial investments available-for-sale) are reviewed at each reporting date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated to determine the amount of impairment loss. The policies on impairment of assets are summarised as follows:-

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(g) Impairment of financial assets (cont'd.)****(i) Loans, advances and financing****(a) Loans, advances and financing**

For the determination of impairment on loans, advances and financing ("loan(s)"), the Group assesses at each reporting date whether there is any objective evidence that a loan is impaired. A loan is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "incurred loss event") and that loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment include:

- any significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- a high probability of bankruptcy or other financial reorganisation of the obligor;
- concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
- any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the borrower.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(g) Impairment of financial assets (cont'd.)****(i) Loans, advances and financing (cont'd.)****(a) Loans, advances and financing (cont'd.)**

The Group first assesses loans individually whether objective evidence of impairment exists. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the statement of comprehensive income. Where appropriate, the calculation of present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For loans which are collectively assessed, the Group has applied the transitional arrangement issued by BNM via its guideline on Classification and Impairment Provisions for loans, advances and financing, whereby collective impairment allowance is maintained at 1.5% of total outstanding loans, net of individual impairment allowance.

In conjunction with the convergence of the Financial Reporting Standards in Malaysia with International Financial Reporting Standards, BNM's guideline on Classification and Impairment Provisions for Loans/Financing were revised on 9 November 2011 to align the requirement on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standards 139: Financial Instruments: Recognition and Measurement (MFRS 139). The transitional arrangement on collective assessment is removed with effect from 1 January 2012 in the revised guideline. Adoption of MFRS 139 may result in future changes to the Group's accounting policy on loan loss provisioning. The Group is in the process of assessing the impact as a result of the new MFRS Framework.

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the statements of comprehensive income.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(g) Impairment of financial assets (cont'd.)****(i) Loans, advances and financing (cont'd.)****(b) Money lending**

Loans and advances are recognised and carried at original invoice amounts less an allowance for any uncollectible amounts.

Individual impairment on loans, advances and financing is made with regard to specific risks and relate to those loans, advances and financing that have been individually reviewed and specifically identified as impaired.

Loans and advances that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics.

(ii) Renegotiated loans

For restructured loans, the Group may extend the payment arrangements and agree on new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(iii) Financial investments held-to-maturity

For financial investments carried at amortised cost in which there is objective evidence of impairment, impairment loss is measured as the difference between the financial investments' carrying amount and the present value of the estimated future cash flows discounted at the financial investments' original EIR. The amount of the impairment loss is recognised in the statements of comprehensive income.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(g) Impairment of financial assets (cont'd.)****(iv) Financial investments available-for-sale**

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that financial investments classified as available-for-sale are impaired.

The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the statements of comprehensive income.

Impairment losses on investment in equity instruments classified as available-for-sale recognised are not reversed subsequent to their recognition.

Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the statements of comprehensive income if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the statements of comprehensive income.

(h) Impairment of non-financial assets**(i) Intangible assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(h) Impairment of non-financial assets (cont'd.)****(i) Intangible assets (cont'd.)**

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in statements of comprehensive income except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in statements of comprehensive income unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(h) Impairment of non-financial assets (cont'd.)****(ii) Other assets**

Other assets such as property, plant and equipment, foreclosed properties and investments in subsidiaries and associates are reviewed for objective indications of impairment at each reporting date or whenever there is any indication that these assets may be impaired. Where such indications exist, impairment loss is determined as the excess of the asset's carrying value over its recoverable amount (greater of value in use or fair value less costs to sell) and is recognised in the statements of comprehensive income. The carrying amount is increased to its revised recoverable amount, provided that the amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(i) Cash and cash equivalents

The statement of cash flows carries changes in cash and cash equivalent according to operating, investing and financing activities. The Group and the Company do not regard any of the assets other than non-fiduciary cash and bank balances and short term deposit to meet the definition of cash and cash equivalents. The statement of cash flows is prepared using the indirect method.

(j) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(j) Financial liabilities (cont'd.)****(i) Financial liabilities at fair value through profit or loss (cont'd.)**

Financial liabilities held for trading include derivatives financial liabilities entered into by the Group that do not meet the hedge accounting criteria. The accounting policy for derivative financial instruments are disclosed in Note 2.4(l).

Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in statements of comprehensive income. Net gains or losses on derivatives include exchange differences.

The Group has not designated any financial liabilities as at fair value through profit or loss.

(ii) Other financial liabilities

The Group's other financial liabilities include deposits from customers, deposits and placements of banks and other financial institutions, trade payables, other payables and loans and borrowings.

Deposits from customers and deposits and placements of banks and other financial institutions are initially recognised at placement values, which represent the fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the EIR.

Balances due to clients and brokers (trade payables) represent amounts payable in respect of outstanding contracts entered into on behalf of these clients where settlements have yet to be made, which represent the initial fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the EIR. The credit terms for trade settlements are based on the agreements entered into between the Group and its clients and are in accordance with the Rules of Bursa Malaysia Securities Berhad.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(j) Financial liabilities (cont'd.)****(ii) Other financial liabilities (cont'd.)**

Other financial liabilities are stated at fair value which is the consideration to be paid in the future for goods and services received. For other financial liabilities, gains or losses are recognised in statements of comprehensive income when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statements of comprehensive income.

(k) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in statements of comprehensive income over the period of the guarantee. If the debtor fails to make payment relating to a financial guarantee contract when it is due and the Company, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(l) 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 statements of financial position as assets (positive changes in fair values) and liabilities (negative changes in fair values). Any gains or losses arising from changes in the fair value of the derivatives are recognised immediately in the profit or loss.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(m) Leases**

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

(i) Finance leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the statements of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.4(e).

(ii) Operating leases

Operating lease payments are recognised as an expense in the statements of comprehensive income on a straight-line basis over the term of the relevant lease.

(n) Income tax**(i) Current tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(n) Income tax (cont'd.)****(i) Current tax (cont'd.)**

Current taxes are recognised in statements of comprehensive income except to the extent that the tax relates to items recognised outside statements of comprehensive income, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(n) Income tax (cont'd.)****(ii) Deferred tax (cont'd.)**

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside statement of comprehensive income is recognised in equity. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Income from the various business activities of the Group is recognised using the following bases:

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(o) Revenue recognition (cont'd.)****(i) Interest income**

Interest income is recognised in the statements of comprehensive income for all interest bearing assets on an accrual basis.

Interest income includes the amortisation of premium or accretion of discount. Interest income on securities is recognised on an effective yield basis. Interest income on loans is accounted for on accrual basis by reference to daily rest as stipulated in the loan agreements.

Interest income on loans, advances and financing is recognised using EIR. The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the loan.

Once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

The policy on interest recognition on impaired loans is in compliance with the revised Guidelines on Financial Reporting for Banking Institutions issued by Bank Negara Malaysia.

(ii) Fee and other income

Brokerage fees are recognised on contract date upon execution of trade on behalf of clients computed based on a pre-determined percentage of the contract value.

Loan arrangement fees and commissions, management and participation fees and underwriting commissions and placement income are recognised as income when all conditions precedent are fulfilled.

Commitment fees, guarantee fees and portfolio management fees which are material are recognised as income based on time apportionment basis.

Corporate advisory fees are recognised as income on the completion of each stage of the assignment.

Rollover fees are recognised upon the rollover of specific contracts under share margin accounts financing.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(o) Revenue recognition (cont'd.)****(ii) Fee and other income (cont'd.)**

Gain/(loss) on disposal of investments is recognised upon the transfer of risks and rewards of ownership.

(iii) Other income

Dividend income is recognised when the right to receive payment is established.

All other income items are recognised on an accrual basis.

(p) Interest expense

Interest expense on deposits from customers, placements of financial institutions and borrowings is recognised on an accrual basis.

(q) Employee benefits**(i) Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the statements of comprehensive income as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(r) Foreign currencies****(i) Functional and presentation currency**

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

(ii) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Group and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the statements of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the statements of comprehensive income of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in statements of comprehensive income for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(r) Foreign currencies (cont'd.)****(iii) Foreign operations**

The assets and liabilities of foreign operations are translated into Ringgit Malaysia at the rates of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the statements of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

(s) Discontinued operation

A component of the Group is classified as a "discontinued operation" when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated major line of business or geographical area of operations. A component is deemed to be held for sale if its carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Upon classification as held for sale, non-current assets and disposal groups are not depreciated and are measured at the lower of carrying amount and fair value less costs to sell. Any differences are recognised in statements of comprehensive income.

(t) Segment information

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 43, including the factors used to identify the reportable segments and the measurement basis of segment information.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(u) Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

The consideration paid, including attributable transaction costs on repurchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

(v) Repurchase agreements

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

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

(w) Contingent liabilities and contingent assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or 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.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.4 Summary of significant accounting policies (cont'd.)****(w) Contingent liabilities and contingent assets (cont'd.)**

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. The Group does not recognize any contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.5 Judgements, estimates and assumptions made in applying accounting policies

In the preparation of the financial statements, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following note:

(a) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill and other intangible assets

The Group determines whether goodwill and other intangible assets are impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill and other intangible assets are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More detailed disclosures on the assessment of impairment of goodwill and other intangible assets are disclosed in Note 16.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.5 Judgements, estimates and assumptions made in applying accounting policies (cont'd.)****(a) Key sources of estimation uncertainty (cont'd.)**

- (ii) The valuation for financial assets held-for-trading (Note 5) and financial investments available-for-sale (Note 6) and derivative financial liabilities (Note 21) is based on fair value. However if the financial investments are not traded in active market, fair value may be established by using a valuation technique which includes but is not limited to using recent arm's length market transactions between knowledgeable, willing parties, if available, and reference to the current fair value of another instrument that is substantially the same.

- (iii) The Group assess at each reporting date whether there is any objective evidence that loans, advances and financing are impaired. To determine whether there is objective evidence of impairment, the Group consider factors such as those disclosed in Note 2.4(g)(i). Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made about the future and other key factors in respect of the future cash flows from the debtors. Among the factors considered are the underlying assumptions used in the projected cash flows which includes net realisable value of the underlying collaterals, capability and financial capacity to generate sufficient cash flow to service debt obligations.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on available information obtained from the debtors, market, and management's judgement.

The carrying value of the Group's loans, advances and financing at the reporting date is disclosed in Note 7.

- (iv) Deferred tax assets (Note 15) - deferred tax assets are recognised for all unutilised tax losses and unabsorbed capital allowances to the extent that it probable that taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.5 Judgements, estimates and assumptions made in applying accounting policies (cont'd.)****(a) Key sources of estimation uncertainty (cont'd.)**

- (v) The Group estimates the useful lives of property, plant and equipment based on factors such as the expected level of usage due to physical wear and tear, future technological developments and legal or other limits on the use of the relevant assets. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the carrying value of property, plant and equipment.
- (vi) Impairment of investments in subsidiaries (Note 11) and investments in associates (Note 12) - the Group assess whether there is any indication that investments in subsidiaries and investments in associates may be impaired at each reporting date. If indicators are present, these assets are subject to an impairment review. The impairment review comprises comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgements made by management in the process of applying the Group's accounting policies in respect of investments in subsidiaries and investments in associates are as follows:

- The Group determines whether its investments are impaired following certain indications of impairment such as, amongst others, prolonged shortfall between market value and carrying amount, significant changes with adverse effects on the investment and deteriorating financial performance of the investment due to observed changes and fundamentals.
- Depending on their nature and the industries in which the investments relate to, judgements are made by management to select suitable methods of valuation such as, amongst others, discounted cash flows, realisable net asset value and sector average price-earning ratio methods.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.5 Judgements, estimates and assumptions made in applying accounting policies (cont'd.)****(a) Key sources of estimation uncertainty (cont'd.)**

(vi) (cont'd.)

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the investment. These assumptions and other key sources of estimation uncertainty at the reporting date, may have a significant risk of causing material adjustment to the carrying amounts of the investments within the next financial year. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks, and expected future outcome of certain past events.

3. Cash and short-term funds

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	118,901	146,658	1,537	1,985
Money at call and deposit placements maturing within one month	1,202,151	1,154,299	11,537	35,450
	<u>1,321,052</u>	<u>1,300,957</u>	<u>13,074</u>	<u>37,435</u>
Included in cash and short-term funds are:				
Monies and short-term deposits held in trust on behalf of dealer's representatives and clients	528,870	487,686	-	-
Monies and short-term deposits	792,182	813,271	13,074	37,435
	<u>1,321,052</u>	<u>1,300,957</u>	<u>13,074</u>	<u>37,435</u>

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)
3. Cash and short-term funds (cont'd.)

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Total loans and receivables include the following:				
Cash and short-term funds	1,321,052	1,300,957	13,074	37,435
Deposits and placements with banks and other financial institutions (Note 4)	375	847	-	-
Loans, advances and financing (Note 7)	547,353	605,264	-	-
Balances due from clients and brokers (Note 8)	179,315	256,344	-	-
Statutory deposit with Bank Negara Malaysia (Note 10)	39,490	9,150	-	-
Total loans and receivables	<u>2,087,585</u>	<u>2,172,562</u>	<u>13,074</u>	<u>37,435</u>

	Group	
	Weighted average interest rate (% per annum)	
	2011	2010
Licensed financial institutions	2.65	2.43
Licensed banks	<u>2.08</u>	<u>1.63</u>

4. Deposits and placements with banks and other financial institutions

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Trust deposits with licensed banks	<u>375</u>	<u>847</u>	<u>-</u>	<u>-</u>

The above are deposits held on behalf of dealer's representatives and clients.

 INFORMATION ON KNKH GROUP (Cont'd)

302359-X

 K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

5. Financial assets held-for-trading

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
At fair value				
Money Market Securities:				
Bank Negara Malaysia Monetary Notes	29,973	129,969	-	-
Malaysian Government Securities	51,879	30,457	-	-
Malaysian Government Investment Certificates	81,750	34,934	-	-
Quoted financial assets:				
Shares and unit trust funds in Malaysia	32,631	33,475	25,450	21,422
Unquoted Private Debt Securities:				
Corporate Bonds	4,985	-	-	-
Corporate Bills	-	64,543	-	-
Islamic Corporate Bonds	40,000	9,821	-	-
	<u>241,218</u>	<u>303,199</u>	<u>25,450</u>	<u>21,422</u>

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

 K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

6. Financial investments available-for-sale

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At fair value				
Money Market Instruments:				
Cagamas Bonds	5,164	-	-	-
Malaysian Government Securities	198,267	381,269	-	-
Malaysian Government Investment Certificates	102,140	119,720	-	-
Negotiable Instruments of Deposits	99,999	-	-	-
Quoted financial assets:				
Shares in Malaysia	-	190	-	-
Shares outside Malaysia	-	62	-	-
Unquoted financial assets:				
Shares in Malaysia	2,100	2,100	-	-
Others	490	490	-	-
Unquoted Private Debt Financial Assets:				
Islamic Corporate Bonds	154,086	-	-	-
Corporate Bonds	247,780	-	-	-
Corporate Bills	39,061	-	-	-
Islamic Debt Securities	-	253,484	-	-
	<u>849,087</u>	<u>757,315</u>	<u>-</u>	<u>-</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
7. Loans, advances and financing

	Group	
	2011	2010
	RM'000	RM'000
Term loans	77,644	179,350
Share margin financing	508,807	464,865
Others	1	80,262
Gross loans, advances and financing	<u>586,452</u>	<u>724,477</u>
Impairment allowance on loans, advances and financing		
- individual impairment	(30,839)	(111,053)
- collective impairment	(8,260)	(8,160)
Net loans, advances and financing	<u>547,353</u>	<u>605,264</u>
(i) By maturity structure		
Within one year	<u>586,452</u>	<u>724,477</u>
(ii) By type of customer		
Domestic business enterprise		
- Small and medium enterprise	-	-
- Others	57,718	325,730
Individuals	511,111	385,299
Other domestic entities	5,386	-
Foreign enterprise	12,237	13,448
Gross loans, advances and financing	<u>586,452</u>	<u>724,477</u>
(iii) By interest rate sensitivity		
Fixed rate		
- Other fixed rate loans	528,734	464,865
Variable rate		
- Base lending rate plus	-	80,262
- Cost plus	57,718	179,350
Gross loans, advances and financing	<u>586,452</u>	<u>724,477</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
7. Loans, advances and financing (cont'd.)

	Group	
	2011	2010
	RM'000	RM'000
(iv) By economic sectors		
Domestic operations:		
Purchase of financial investments	19,526	63,248
Transport, storage and communication	33,804	117,597
Finance, insurance and business services	23,914	13,114
Working capital	401	17,014
Construction	-	41,778
Manufacturing	-	6,861
Others	508,807	464,865
Gross loans, advances and financing	<u>586,452</u>	<u>724,477</u>
(v) Impaired loans by economic purposes		
Working capital	34,206	185,381
Purchase of financial investments	37,152	21,705
	<u>71,358</u>	<u>207,086</u>
(vi) Impaired loans by economic sectors		
Manufacturing	402	17,737
Construction	-	41,728
Finance, insurance and business services	-	8,518
Transportation	33,804	117,597
Purchase of financial investments	37,152	21,506
Gross impaired loans	<u>71,358</u>	<u>207,086</u>
(vii) Movements in impaired loans, advances and financing		
At beginning of the year	207,086	78,032
Impaired during the year	5,972	177,480
Recovered	(54,379)	(45,775)
Written off	(87,321)	(2,651)
At end of the year	<u>71,358</u>	<u>207,086</u>
Individual impairment	<u>(30,839)</u>	<u>(111,053)</u>
Net impaired loans, advances and financing	<u>40,519</u>	<u>96,033</u>
Net impaired loans as % of gross loans, advances and financing less individual impairment	<u>7.29%</u>	<u>15.66%</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

7. Loans, advances and financing (cont'd.)

	Group	
	2011	2010
	RM'000	RM'000
(viii) Movements in impairment allowance for loans, advances and financing		
<u>Individual impairment allowance</u>		
At beginning of the year	111,053	-
Effects of adopting FRS 139	-	63,871
Allowance made during the year (Note 31)	12,073	101,704
Amount of allowance set off against gross loans	(84,035)	(45,184)
Amount written back in respect of recoveries (Note 31)	(8,252)	(9,338)
At end of the year	30,839	111,053
<u>Collective impairment allowance</u>		
At beginning of the year	8,160	-
Effects of adopting FRS 139	-	12,071
Allowance written-back	4,113	-
Allowance made during the year	(4,013)	(3,911)
At end of the year	8,260	8,160
As % of gross loans, advances and financing less individual impairment	1.49%	1.33%

8. Balances due from clients and brokers

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Due from clients	134,248	158,007	-	-
Due from brokers	57,822	109,954	-	-
	192,070	267,961	-	-
Less:				
Impairment allowance	(12,755)	(11,617)	-	-
	179,315	256,344	-	-

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

8. Balances due from clients and brokers (cont'd.)**Additional Financial Information on the Bank subsidiary:****Classification of impaired accounts and related expenses in accordance with the Rules of Bursa Malaysia Securities Berhad:****Movements of impairment allowance**

	Group	
	2011	2010
	RM'000	RM'000
At beginning of the year	11,617	13,238
Allowance for the year	5,010	1,600
Reversal of impairment allowance	(3,180)	(2,861)
Impairment amount set off against balances due from clients and brokers	(692)	(360)
At end of the year	<u>12,755</u>	<u>11,617</u>

9. Other assets

		Group		Company	
	Note	2011	2010	2011	2010
		RM'000	RM'000	RM'000	RM'000
Assets segregated for customers	(a)	167,728	86,291	-	-
Amounts due from subsidiary companies	(b)	-	-	16,367	13,639
Interest/income receivable		9,165	9,752	-	-
Prepayments and deposits		13,101	12,602	322	76
Treasury trade receivables		34,325	-	-	-
Other debtors		9,819	13,762	2	28
		<u>234,138</u>	<u>122,407</u>	<u>16,691</u>	<u>13,743</u>
Impairment allowance		(1,706)	(1,770)	-	-
		<u>232,432</u>	<u>120,637</u>	<u>16,691</u>	<u>13,743</u>

(a) Assets segregated for customers

	Group	
	2011	2010
	RM'000	RM'000
Margin deposits with Malaysian Derivatives Clearing House	<u>167,728</u>	<u>86,291</u>

This represent deposits and fund contribution paid by a subsidiary to Malaysian Derivatives Clearing House.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

9. Other assets (cont'd.)**(b) Amounts due from subsidiary companies**

The amounts due from subsidiary companies comprise payments of expenses made on the subsidiary companies' behalf.

The amount due from subsidiary company, Kenanga Capital Sdn Bhd comprise advances granted to the subsidiary which are unsecured, bear interest at 4.5% (2010: 4.5%) per annum and repayable on demand.

The other balances are unsecured, non-interest bearing and repayable on demand.

Included in other receivables, deposits and prepayment are receivables from corporate advisory billings which are non-interest bearing and generally on 90 day (2010: 90 day) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

10. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit is maintained by the investment bank subsidiary with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994). The amount is determined as a set percentage of net eligible liabilities. As at the reporting date, the statutory deposit maintained with BNM is RM39,490,000 (2010: RM9,150,000).

11. Investments in subsidiaries

		Company	
	Note	2011	2010
		RM'000	RM'000
Unquoted shares, at cost		601,687	601,687
Subordinated unsecured loan to a subsidiary company	(a)	28,650	13,650
Financial guarantee for a subsidiary company		-	657
		<u>630,337</u>	<u>615,994</u>

(a) Subordinated unsecured loan to a subsidiary company

The subordinated loan of RM28.65 million (2010: RM13.65 million) granted to a subsidiary company, Kenanga Deutsche Futures Sdn Bhd ("KDF") is unsecured and bears interest at 5.5% (2010: 5%) per annum of which RM3.65 million and RM25 million is due for repayment in January 2015 and November 2016 respectively, subject to approvals being obtained from Bursa Malaysia Derivatives Berhad.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
11. Investments in subsidiaries (cont'd.)

The subsidiary companies, which are all incorporated in Malaysia are:

	Equity interest		Principal activities
	2011	2010	
	%	%	
Kenanga Management & Services Sdn Bhd	100	100	Car park management
Kenanga Deutsche Futures Sdn Bhd	73	73	Futures broker
Kenanga Investment Bank Berhad	100	100	Stockbroking and investment banking

The subsidiary companies of Kenanga Investment Bank Berhad are:

Kenanga Nominees (Tempatan) Sdn Bhd	100	100	} Provision of nominee services
Kenanga Nominees (Asing) Sdn Bhd	100	100	
Kenanga Islamic Investors Berhad	100	100	Management of unit trusts schemes and fund management services
Kenanga Investors Berhad	100	100	Management of unit trusts schemes and fund management services

The subsidiary companies of Kenanga Investors Berhad are:

KUT Nominees (Tempatan) Sdn Bhd	100	100	} Provision of nominee services
KUT Nominees (Asing) Sdn Bhd	100	100	
Kenanga Securities Custodian Sdn Bhd	100	100	Members' voluntary winding up
Kenanga Asset Management Sdn Bhd	100	100	Members' voluntary winding up

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
11. Investments in subsidiaries (cont'd.)

	Equity interest		Principal activities
	2011 %	2010 %	
Kenanga Capital Sdn Bhd	100	100	Money lending
The subsidiary companies of Kenanga Capital Sdn Bhd are:			
Capital Investment Bank (Labuan) Limited	100	100	Offshore investment banking, currently dormant
Kenanga Capital Islamic Sdn Bhd	100	-	Leasing and factoring business
Kenanga Private Equity Sdn Bhd	100	100	Venture capital
Kenanga Smart Access Sdn Bhd	100	100	Members' voluntary winding up
Kenanga Business Access Sdn Bhd	100	100	Members' voluntary winding up
SSSB Management Services Sdn Bhd	100	100	Dormant
Sarawak Securities Futures Sdn Bhd	100	100	Members' voluntary winding up
PSSB Corporate Services Sdn Bhd	100	100	Dormant
The subsidiary company of PSSB Corporate Services Sdn Bhd is:			
Peninsula Research Sdn Bhd	100	100	Members' voluntary winding up

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

11. Investments in subsidiaries (cont'd.)**(b) Special purpose entities**

In accordance with the requirements of IC 112: Consolidation - Special Purpose Entities, Kenanga Syariah Growth Fund ("KSGF") and Kenanga Growth Fund ("KGF") were previously consolidated by virtue of the Group's controlling interest in the two unit trust funds and the Group's control over Kenanga Investors Berhad which manages the two unit trust funds.

During the year, the Group's interests in KSGF and KGF were reduced to below 50% following the increase in non-controlling interests' investments in the two unit trust funds. As a result, the Group no longer controls the two unit trust funds. Upon deconsolidation, the Group retains its interests in the two unit trust funds as financial assets held for trading.

12. Investments in associates

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted shares at cost	88,644	88,644	20,210	20,210
Share of post acquisition losses	(17,996)	(12,119)	-	-
	70,648	76,525	20,210	20,210
Dividends received	(100)	(82)	-	-
	70,548	76,443	20,210	20,210
Exchange differences	(8,143)	(9,652)	-	-
	62,405	66,791	20,210	20,210
Less: Accumulated impairment loss				
At beginning of year	(17,689)	-	-	-
Impairment loss during the year	(419)	(17,689)	(6,850)	-
	(18,108)	(17,689)	(6,850)	-
At end of year	44,297	49,102	13,360	20,210
Represented by:				
Share of net tangible assets	44,297	42,459		
Goodwill	-	6,643		
	44,297	49,102		

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
12. Investments in associates (cont'd.)

The Group carried out impairment assessments on its associates in accordance with accounting policy stated in Note 2.4(h)(ii). The recoverable amount is based on value in use calculations in which the cash flow projections reflect management's assessment of the performance of the associate based on past experience and future business plan. Discount rates ranging from 10.67% to 13.54% were applied to the cash flow projections. Based on the management's assessment of the recoverable value, the Group and the Company has provided for impairment loss amounting to RM0.42 million and RM6.85 million respectively for the current financial year.

Details of the associates are as follows:

Name	Place of incorporation	Principal activities	Effective equity interest	
			2011	2010
SMB Kenanga Investment Corporation Ltd ¹	Sri Lanka	Investment banking, corporate finance services and placements	45%	45%
ALWasatah ALMaliah Company ¹ (Wasatah Capital)	Kingdom of Saudi Arabia	Securities and advisory business	29.6%	29.6%
Kenanga Vietnam Securities Corporation	Vietnam	Securities and advisory business	49%	49%

¹ Audited by firms other than Ernst & Young

The summarised financial information of the associates is as follows:

	Group	
	2011 RM'000	2010 RM'000
Assets and Liabilities		
Current assets	176,652	179,732
Non-current assets	1,912	11,339
Total assets	<u>178,564</u>	<u>191,071</u>
Current liabilities	4,156	5,592
Non-current liabilities	61	-
Total liabilities	<u>4,217</u>	<u>5,592</u>
Results		
Revenue	2,883	12,319
Loss for the year	<u>(18,686)</u>	<u>(9,172)</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

13. Property, plant and equipment

Group	Capital work-in- progress RM'000	Renovations RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture and fittings RM'000	Research library RM'000	Total RM'000
At 31 December 2011							
Cost							
At 1 January 2011	4,480	3,818	6,375	46,910	39,473	703	101,759
Additions	1,392	2,700	682	4,947	1,733	-	11,454
Reclassification	(4,428)	1,913	-	1,715	800	-	-
Disposals/write-off	-	(265)	(506)	(1,568)	(3,842)	-	(6,181)
At 31 December 2011	1,444	8,166	6,551	52,004	38,164	703	107,032
Accumulated depreciation							
At 1 January 2011	-	2,006	5,153	42,286	29,145	703	79,293
Charge for the year	-	711	580	2,919	2,181	-	6,391
Disposals/write-off	-	(173)	(343)	(1,480)	(3,012)	-	(5,008)
Reclassification	-	-	-	(20)	20	-	-
At 31 December 2011	-	2,544	5,390	43,705	28,334	703	80,676
Net carrying amount							
At 31 December 2011	1,444	5,622	1,161	8,299	9,830	-	26,356

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

13. Property, plant and equipment (cont'd.)

Group (cont'd.)	Capital work-in- progress RM'000	Renovations RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture and fittings RM'000	Research library RM'000	Total RM'000
At 31 December 2010							
Cost							
At 1 January 2010	363	3,513	9,502	47,633	39,797	703	101,511
Additions	4,443	649	-	490	442	-	6,024
Reclassification	(326)	284	-	(60)	34	-	(68)
Disposals/write-off	-	(705)	(3,208)	(1,383)	(800)	-	(6,096)
Arising on acquisition of equity interest in a unit trust and asset management company	-	77	81	230	-	-	388
At 31 December 2010	4,480	3,818	6,375	46,910	39,473	703	101,759
Accumulated depreciation							
At 1 January 2010	-	2,026	7,144	40,558	27,337	703	77,763
Charge for the year	-	353	741	3,117	2,371	-	6,582
Disposals/write-off	-	(373)	(2,732)	(1,311)	(563)	-	(4,979)
Reclassification	-	-	-	(78)	-	-	(78)
At 31 December 2010	-	2,006	5,153	42,286	29,145	703	79,293
Net carrying amount							
At 31 December 2010	4,480	1,812	1,222	4,624	10,328	-	22,466

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

13. Property, plant and equipment (cont'd.)

Company	Furniture and fittings RM'000	Renovations RM'000	Motor vehicles RM'000	Office equipment RM'000	Total RM'000
At 31 December 2011					
Cost					
At 1 January 2011	4	21	902	382	1,309
Additions	153	605	478	158	1,394
Disposal/write off	(4)	(16)	(256)	(19)	(295)
At 31 December 2011	153	610	1,124	521	2,408
Accumulated depreciation					
At 1 January 2011	3	6	440	217	666
Charge for the year	19	43	191	90	343
Disposal/write off	(1)	(1)	(98)	(8)	(108)
At 31 December 2011	21	48	533	299	901
Net carrying amount					
At 31 December 2011	132	562	591	222	1,507
At 31 December 2010					
Cost					
At 1 January 2010	4	21	1,000	292	1,317
Additions	-	-	-	90	90
Disposal/write off	-	-	(98)	-	(98)
At 31 December 2010	4	21	902	382	1,309
Accumulated depreciation					
At 1 January 2010	2	5	380	119	506
Charge for the year	1	2	151	88	242
Disposal/write off	-	-	(91)	-	(91)
Reclassification	-	(1)	-	10	9
At 31 December 2010	3	6	440	217	666
Net carrying amount					
At 31 December 2010	1	15	462	165	643

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

14. Discontinued operation and disposal groups classified as held-for-sale**Discontinuation of a subsidiary company's business operation**

On 19 November 2009, the board of directors of Capital Investment Bank (Labuan) Ltd decided to cease its business operations in Labuan.

	Group	
	2011	2010
	RM'000	RM'000
Assets		
Property, plant and equipment	11	25
Cash and bank balances	6,045	6,277
Other receivables	29	30
	<u>6,085</u>	<u>6,332</u>
Liabilities		
Other payables	<u>21</u>	<u>9</u>

The effects on statements of comprehensive income of discontinued operation for the year ended 31 December 2011 are as follows:

	Group	
	2011	2010
	RM'000	RM'000
Revenue	118	-
Cost of sales	-	-
Gross profit	<u>118</u>	<u>-</u>
Other income	3	100
Staff Cost	(90)	(180)
Depreciation	(15)	(23)
Operating expense	<u>(252)</u>	<u>(340)</u>
Loss before tax from discontinued operation	(236)	(443)
Taxation (Note 36)	-	(5)
Loss for the year from discontinued operation	<u>(236)</u>	<u>(448)</u>

The following amounts have been included in arriving at loss before tax from discontinued operation:

	Group	
	2011	2010
	RM'000	RM'000
Depreciation	<u>15</u>	<u>23</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
15. Deferred taxation

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
At beginning of the year	(13,424)	(8,769)	2,100	1,750
FRS 139 adjustments	-	269	-	-
Acquisition of a subsidiary company	-	4	-	-
Recognised in statements of comprehensive income (Note 36)	1,198	(5,957)	(487)	350
Recognised in other comprehensive income	(30)	1,029	-	-
At end of the year	<u>(12,256)</u>	<u>(13,424)</u>	<u>1,613</u>	<u>2,100</u>
Analysed as follows:				
Deferred tax assets	(13,970)	(15,558)	-	-
Deferred tax liabilities	1,714	2,134	1,613	2,100
	<u>(12,256)</u>	<u>(13,424)</u>	<u>1,613</u>	<u>2,100</u>

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Unrealised gains of financial investments available-for-sale	Unrealised gains of financial assets held-for-trading	Excess of capital allowances over depreciation	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2011	823	2,606	3,151	6,580
Recognised in statements of comprehensive income	-	1,007	598	1,605
Recognised in other comprehensive income	(30)	-	-	(30)
At 31 December 2011	<u>793</u>	<u>3,613</u>	<u>3,749</u>	<u>8,155</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
15. Deferred taxation (cont'd.)**Deferred tax liabilities of the Group: (cont'd.)**

	Unrealised gains of financial investments available- for-sale RM'000	Unrealised gains of financial assets held-for- trading RM'000	Excess of capital allowances over depreciation RM'000	Total RM'000
At 1 January 2010	(66)	2,086	3,415	5,435
Acquisition of a subsidiary company	-	-	4	4
Recognised in statements of comprehensive income	1,109	520	(268)	1,361
Recognised in other comprehensive income	(220)	-	-	(220)
At 31 December 2010	<u>823</u>	<u>2,606</u>	<u>3,151</u>	<u>6,580</u>

Deferred tax assets of the Group:

	Impairment allowance, and provision RM'000	Unabsorbed capital allowances and tax losses RM'000	Total RM'000
At 1 January 2011	(7,238)	(12,766)	(20,004)
Recognised in statements of comprehensive income	6,657	(7,064)	(407)
At 31 December 2011	<u>(581)</u>	<u>(19,830)</u>	<u>(20,411)</u>
At 1 January 2010	(11,752)	(2,452)	(14,204)
FRS 139 adjustments	269	-	269
Recognised in other comprehensive income	1,249	-	1,249
Recognised in statements of comprehensive income	2,996	(10,314)	(7,318)
At 31 December 2010	<u>(7,238)</u>	<u>(12,766)</u>	<u>(20,004)</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

15. Deferred taxation (cont'd.)**Deferred tax liabilities of the Company:**

	Unrealised gains of financial assets held-for-sale and trading RM'000	Excess of capital allowances over depreciation RM'000	Total RM'000
At 1 January 2011	2,606	29	2,635
Recognised in statements of comprehensive income	1,007	13	1,020
At 31 December 2011	<u>3,613</u>	<u>42</u>	<u>3,655</u>
At 1 January 2010	2,086	42	2,128
Recognised in statements of comprehensive income	520	(13)	507
At 31 December 2010	<u>2,606</u>	<u>29</u>	<u>2,635</u>

Deferred tax assets of the Company:

	Unutilised tax losses RM'000	Unutilised capital allowance RM'000	Provisions RM'000	Total RM'000
At 1 January 2011	-	-	(535)	(535)
Recognised in statements of comprehensive income	(946)	(115)	(446)	(1,507)
At 31 December 2011	<u>(946)</u>	<u>(115)</u>	<u>(981)</u>	<u>(2,042)</u>
At 1 January 2010	-	-	(378)	(378)
Recognised in statements of comprehensive income	-	-	(157)	(157)
At 31 December 2010	<u>-</u>	<u>-</u>	<u>(535)</u>	<u>(535)</u>

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2011 RM'000	2010 RM'000
Unutilised tax losses carried forward	12,164	13,072
Unutilised capital allowances carried forward	982	1,149
	<u>13,146</u>	<u>14,221</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

15. Deferred taxation (cont'd.)

The unutilised tax losses and unabsorbed capital allowances of the Group amounting to RM12,164,000 (2010: RM13,072,000) and RM982,000 (2010: RM1,149,000) respectively are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

16. Intangible assets

	Goodwill RM'000	Merchant banking licence RM'000	Computer softwares RM'000	Fund management contracts RM'000	Total RM'000
Group					
Cost					
At 1 January 2011	63,187	52,500	3,326	-	119,013
Adjustment of goodwill - Remeasurement of fair value of net identifiable assets	(4,169)	-	-	4,169	-
At 1 January 2011, restated	59,018	52,500	3,326	4,169	119,013
Additions	-	-	46	-	46
At 31 December 2011	59,018	52,500	3,372	4,169	119,059
Accumulated amortisation and impairment					
At 1 January 2011	(35,767)	-	(1,901)	-	(37,668)
Current year amortisation	-	-	(1,085)	-	(1,085)
At 31 December 2011	(35,767)	-	(2,986)	-	(38,753)
Net carrying amount					
At 31 December 2011	23,251	52,500	386	4,169	80,306

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

 K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

16. Intangible assets (cont'd.)

	Goodwill RM'000	Merchant banking licence RM'000	Computer softwares RM'000	Total RM'000
Group (cont'd.)				
Cost				
At 1 January 2010	53,373	52,500	2,820	108,693
Arising on acquisition of equity interest in a unit trust and asset management company	9,814	-	481	10,295
Reclassification	-	-	(25)	(25)
Additions	-	-	50	50
At 31 December 2010	<u>63,187</u>	<u>52,500</u>	<u>3,326</u>	<u>119,013</u>
Accumulated amortisation and impairment				
At 1 January 2010	(35,767)	-	(821)	(36,588)
Current year amortisation	-	-	(1,080)	(1,080)
At 31 December 2010	<u>(35,767)</u>	<u>-</u>	<u>(1,901)</u>	<u>(37,668)</u>
Net carrying amount				
At 31 December 2010	<u>27,420</u>	<u>52,500</u>	<u>1,425</u>	<u>81,345</u>

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

 K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

16. Intangible assets (cont'd.)

Company	Goodwill RM'000	Merchant banking licence RM'000	Computer softwares RM'000	Total RM'000
Cost				
At 1 January 2011/31 December 2011	-	-	363	363
Accumulated amortisation and impairment				
At 1 January 2011	-	-	(233)	(233)
Amortisation	-	-	(112)	(112)
At 31 December 2011	-	-	(345)	(345)
Net carrying amount				
At 31 December 2011	-	-	18	18
Cost				
At 1 January 2010/31 December 2010	-	-	363	363
Accumulated amortisation and impairment				
At 1 January 2010	-	-	(68)	(68)
Amortisation	-	-	(131)	(131)
Adjustment	-	-	(34)	(34)
At 31 December 2010	-	-	(233)	(233)
Net carrying amount				
At 31 December 2010	-	-	130	130

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**16. Intangible assets (cont'd.)****(a) Impairment test on intangible assets**

The intangible assets consist of:

Goodwill

Goodwill of RM59.018 million comprised of RM5.645 million allocated to the Group's subsidiary unit trust and asset management and RM53.373 million is allocated to stockbroking unit. Goodwill is considered to have an indefinite useful life, which is not amortised and is assessed for impairment annually.

Merchant banking license

Merchant banking licence which is allocated to the Bank subsidiary represents contribution to Bank Negara Malaysia ("BNM") for a licence to carry on merchant banking business to transform the subsidiary from a Universal Broker into an Investment Bank and is considered to have indefinite useful life, which is not amortised and is assessed for impairment annually.

Fund management contracts

Fund management contracts of unit trust funds which are allocated to one of the Group's subsidiary operations. Fund management contracts are considered to have indefinite useful life, which is not amortised and is assessed for impairment annually.

An annual impairment review has been carried out on all the intangible assets with an indefinite useful life in accordance with FRS 136: Impairment of Assets and FRS 138: Intangible Assets.

Key assumptions used in value-in-use calculations

For annual impairment testing purposes, the recoverable amounts of the CGUs, which are reportable business segments, are determined based on their value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial budget and projections approved by management.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of intangible assets:

(i) Cash flow projections and growth rate

Cash flow projections are based on the most recent one-year financial budget approved by the Board, taking into account projected regulatory capital requirements. Cash flows for the second to fifth years are extrapolated using growth rates that do not exceed the long term average growth rate for the market in which the business operates. Cash flows beyond the fifth year are projected to remain constant and estimated as a terminal value by discounting future cash flows to present value.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

16. Intangible assets (cont'd.)**(a) Impairment test on intangible assets (cont'd.)****(ii) Discount rate**

The discount rate used is based on the subsidiaries' pre-tax weighted average cost of capital plus an appropriate risk premium at the date of assessment of the respective CGU range from 6% to 14% (2010: 6.50%).

(b) Sensitivity to changes in assumptions

Management believes that a reasonable possible change in any of the above key assumptions would not cause the recoverable amounts of the goodwill and merchant bank licence to be lower than carrying amounts of the CGUs, which would warrant any impairment loss to be recognised.

17. Deposits from customers

	Group	
	2011	2010
	RM'000	RM'000
Fixed money deposits	123,441	350,059
Short term money	877,289	661,518
Call money deposits	31,250	1,000
	<u>1,031,980</u>	<u>1,012,577</u>

(i) The maturity structure is as follows:

Due within six months	1,031,450	951,541
Six months to one year	530	61,036
	<u>1,031,980</u>	<u>1,012,577</u>

(ii) The deposits are sourced from the following types of customers:

Government and statutory bodies	325,225	244,189
Individuals	1,720	-
Business enterprises	705,035	768,388
	<u>1,031,980</u>	<u>1,012,577</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
18. Deposits and placements of banks and other financial institutions

	Group	
	2011	2010
	RM'000	RM'000
Licensed banks	224,996	304,000
Licensed investment banks	50,000	70,000
Other financial institutions	552,906	432,689
	<u>827,902</u>	<u>806,689</u>

19. Other liabilities

	Note	Group		Company	
		2011	2010	2011	2010
		RM'000	RM'000	RM'000	RM'000
Balances due to clients and brokers	(a)	580,818	586,525	-	-
Amounts held in trust	(b)	253,404	224,254	-	-
Hire purchase creditors	(c)	182	-	-	-
Profit/Interest payable		5,031	8,609	-	-
Retention for Contra Losses		15,587	16,272	-	-
Treasury trade payables		64,942	-	-	-
Accruals		4,198	-	-	-
Deposits and other creditors		26,437	44,864	637	1,484
Amount due to subsidiary companies		-	-	417	-
		<u>950,599</u>	<u>880,524</u>	<u>1,054</u>	<u>1,484</u>

(a) Balances due to clients and brokers

Balances due to clients and brokers are non-interest bearing and the normal trade credit terms granted to the Group range from one month to three months apart from balance due to SCANS and futures broking where settlement is T+3 days.

(b) Amounts held in trust

	Group	
	2011	2010
	RM'000	RM'000
Amounts held in trust on behalf of:		
- clients	211,273	182,769
- dealer's representatives	42,131	41,485
	<u>253,404</u>	<u>224,254</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
19. Other liabilities (cont'd.)**(c) Hire purchase payable**

	Group	
	2011	2010
	RM'000	RM'000
Future minimum finance lease payments:		
Not later than 1 year	45	-
Later than 1 year and not later than 5 years	157	-
	<u>202</u>	<u>-</u>
Less: Future finance charges	(20)	-
Present value of finance lease liabilities	<u>182</u>	<u>-</u>
Analysis of present value of finance lease payments:		
Not later than 1 year	38	-
Later than 1 year and not later than 5 years	144	-
	<u>182</u>	<u>-</u>
Analysed as:		
Due within 12 months	38	-
Due after 12 months	144	-
	<u>182</u>	<u>-</u>

20. Provision

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Provision for operating expenses including staff costs	18,734	16,434	4,353	2,928
Provision for contingent liabilities	620	620	-	-
	<u>19,354</u>	<u>17,054</u>	<u>4,353</u>	<u>2,928</u>

21. Derivative financial liabilities

	2011		2010	
	Contract/ Notional amount	Fair value financial liabilities	Contract/ Notional amount	Fair value financial liabilities
	RM'000	RM'000	RM'000	RM'000
Group				
Structured call warrants	52,051	2,145	5,834	1,571

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

21. Derivative financial liabilities (cont'd.)

The contractual or underlying notional amounts of derivative financial liabilities held at fair value through the statements of comprehensive income reflect the value of transactions outstanding at reporting date, and do not represent amounts at risk.

Derivative financial liabilities represent the initial offer price of structured call warrants received by a subsidiary from call warrant holders upon the sale of the call warrants and subsequently stated at fair value.

22. Subordinated obligations

The subordinated loan represents a loan from a shareholder of a subsidiary company, Kenanga Deutsche Futures Sdn Bhd. The loan is unsecured, bears interest at 5.5% per annum (2010: 5%) and is due for repayment in January 2015, subject to approval being obtained from the Bursa Malaysia Derivatives Berhad.

23. Borrowings

	Group	
	2011	2010
	RM'000	RM'000
Short Term Borrowings		
Unsecured:		
Revolving bank loan	31	65,757

This revolving bank loan to a subsidiary, Kenanga Capital Sdn Bhd bears interest of 1.65% to 2.00% over KLIBOR (2010: 1.65% to 2.00% over KLIBOR) plus cost of maintaining statutory reserve and liquidity requirements and is payable on maturity of the loan. The maximum tenure for the loan is 30 days.

The borrowings are secured by:

- (a) corporate guarantees by the Company of RM165 million; and
- (b) letter of subordination signed by the Company agreeing to subordinate the Company's advances to the lender.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

24. Share capital

	Number of Ordinary Shares of RM1 each		Amount	
	2011	2010	2011	2010
	'000	'000	RM'000	RM'000
Authorised:				
At 1 January/31 December	800,000	800,000	800,000	800,000
Issued and fully paid:				
At 1 January/31 December	611,759	611,759	611,759	611,759

25. Reserves

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Non-distributable					
Capital reserve	(a)	71,952	71,952	-	-
Share premium		75	75	75	75
Exchange reserve	(b)	(8,136)	(9,645)	-	-
Available-for-sale reserve	(c)	2,839	2,930	-	-
Statutory reserve	(d)	65,699	57,458	-	-
		132,429	122,770	75	75
Distributable					
Retained profits	(e)	8,499	9,339	87,021	96,669
		140,928	132,109	87,096	96,744

The nature and purpose of each category of reserve are as follows:

(a) Capital reserve

The capital reserve of the Group arose from the capitalisation of bonus issue in certain subsidiaries.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**25. Reserves (cont'd.)****(b) Exchange reserve**

The exchange reserve represents foreign exchange differences arising from the translation of the financial statements of associated companies.

(c) Available-for-sale reserve

Available-for-sale reserve is in respect of unrealised fair value gains and losses on financial investments available-for-sale, net of tax.

(d) Statutory reserve

The statutory reserve is maintained by the Bank subsidiary in compliance with Section 36 of the Banking and Financial Institutions Act 1989 and is not distributable as dividends.

(e) Retained profits

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the 108 balance as at 31 December 2007. Accordingly, the Company may utilise the credit in the 108 balance as at 31 December 2011 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2011, the Company has sufficient credit in the 108 balance to pay franked dividends out of its entire retained profits (2010: Company has sufficient credit in the 108 balance to pay franked dividends of RM96.0 million out of its entire profits. If the balance of the retained earnings of RM0.7 million were to be distributed as dividend, the Company may distribute such dividend under the single tier system).

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

26. Operating revenue

Operating revenue of the Group and the Company comprises the following:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Dividend income	1,395	2,634	18	8,906
Gross brokerage	118,761	115,643	-	-
Fund management fees	9,930	9,349	-	-
Commission income	11,585	12,977	-	-
Custodian fees	10	313	-	-
Advisory fees	6,893	11,055	-	-
Interest income	105,947	110,661	2,169	1,854
Management services	324	347	7,616	4,662
Foreign exchange gain	2,057	1,707	-	-
Placement fee	20	241	-	-
Underwriting fees	693	212	-	-
Fees on loans and advances	553	365	-	-
Unrealised gains on revaluation of financial assets held-for-trading	5,384	6,620	4,028	5,235
Other fee income	6,179	11,825	-	-
Gain on disposal of quoted shares	6,226	9,680	-	8,315
Processing fees	950	2,712	-	-
	276,907	296,341	13,831	28,972

27. Interest income

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loans, advances and financing				
- Interest income other than recoveries from impaired loans	40,324	59,365	-	-
- Inter-company	-	-	2,169	1,737
Money at call and deposit placements with financial institutions	25,654	14,580	-	1
Financial assets held-for-trading	7,546	5,832	-	116
Financial investments available-for-sale	31,884	27,963	-	-
Interest income on impaired loans	3,061	2,099	-	-
Interest on contra	1,692	1,249	-	-
Others	14	6	-	-
	110,175	111,094	2,169	1,854

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
28. Interest expense

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Deposits and placement of banks and other financial institutions	12,959	5,178	-	-
Revolving bank loan	1,922	2,839	-	-
Deposits from customers	43,658	35,792	-	-
	<u>58,539</u>	<u>43,809</u>	<u>-</u>	<u>-</u>

29. Other operating income

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
(a) Fee income:				
Commissions	11,560	12,977	-	-
Service charges and fees	-	13,999	-	-
Underwriting fees	693	212	-	-
Brokerage income	118,761	115,643	-	-
Other fee income	24,903	13,268	18	-
	<u>155,917</u>	<u>156,099</u>	<u>18</u>	<u>-</u>
(b) Investment and trading income:				
Financial assets held-for-trading	5,244	9,198	-	8,315
Financial investments available-for-sale	3,491	482	-	-
	<u>8,735</u>	<u>9,680</u>	<u>-</u>	<u>8,315</u>
(c) Gross dividend income from:				
- Investment in subsidiary	-	-	-	7,786
- Investment in an associate	-	-	18	24
- Financial assets held-for-trading	923	2,519	-	1,096
- Financial investments available-for-sale	490	115	-	-
	<u>1,413</u>	<u>2,634</u>	<u>18</u>	<u>8,906</u>
(d) Unrealised gains on revaluation of financial assets held-for-trading	<u>5,384</u>	<u>6,620</u>	<u>4,028</u>	<u>5,235</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
29. Other operating income (cont'd.)

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
(e) Other income:				
Foreign exchange profit/(loss)	1,270	1,707	(12)	-
Unrealised foreign exchange gain on financial investments	737	736	-	-
Gains/(loss) on disposal of property, plant and equipment	29	698	(23)	28
Capital gain arising from receipt of shares in Bursa Malaysia Securities Berhad	-	306	-	-
Others	11,503	18,359	7,621	4,718
	<u>13,539</u>	<u>21,806</u>	<u>7,586</u>	<u>4,746</u>
Total other operating income	<u>184,988</u>	<u>196,839</u>	<u>11,650</u>	<u>27,202</u>

30. Other operating expenses

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Personnel costs				
- Salaries, allowances and bonuses	67,066	62,947	9,341	10,076
- EPF	7,239	5,726	952	735
- Others	6,787	9,163	1,543	1,398
	<u>81,092</u>	<u>77,836</u>	<u>11,836</u>	<u>12,209</u>
Establishment costs				
- Depreciation of property, plant and equipment	6,391	6,582	343	242
- Amortisation of intangible assets	1,085	1,080	112	131
- Rental of premises	18,873	21,634	1,692	1,832
- Rental of equipment	1,138	720	21	41
- Repairs and maintenance of property, plant and equipment	1,628	1,615	186	206
- Information technology expenses	3,512	2,465	5	13
- Others	2,361	2,868	394	480
	<u>34,988</u>	<u>36,964</u>	<u>2,753</u>	<u>2,945</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
30. Other operating expenses (cont'd.)

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Marketing expenses				
- Advertisement and publicity	316	160	68	-
- Others	4,838	3,510	720	78
	<u>5,154</u>	<u>3,670</u>	<u>788</u>	<u>78</u>
Administration and general expenses				
- Dealer's representatives' commission and incentives	64,504	60,280	-	-
- Regulatory charges	8,910	7,788	56	27
- Professional fees and legal fees	9,163	3,562	389	1,013
- Administrative expenses	21,329	15,588	1,251	3,986
- Write-off of intercompany balances	-	-	31	56
- Claims incurred	-	45	-	-
- Others	-	571	-	-
	<u>103,906</u>	<u>87,834</u>	<u>1,727</u>	<u>5,082</u>
Total other operating expenses	<u>225,140</u>	<u>206,304</u>	<u>17,104</u>	<u>20,314</u>
Included in the other operating expenses are the followings:				
Auditors' remuneration				
- Statutory audit	331	317	35	40
- Overprovision in prior year	-	-	-	(5)
- Assurance related	60	277	20	113
- Other services	369	163	11	15
Directors' remuneration fees (Note 34)	2,203	1,952	847	763
- emoluments	2,188	5,488	1,435	2,950
- other remuneration	465	817	220	314
- benefits-in-kind	125	85	104	45
Rental of equipment	1,138	720	21	41
Management fees paid to subsidiaries	-	-	-	1,527
Property, plant and equipment written off	830	476	-	-

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
31. Impairment allowance on loans, advances and financing

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Impairment allowance on loans, advances and financing:				
- collective impairment (net)	(100)	3,911	-	-
- individual impairment	(12,073)	(101,704)	-	-
- amount written back	8,252	9,338	-	-
Bad debts and financing written off	(152)	-	-	-
Bad debts and financing recovered	6	5	-	-
	<u>(4,067)</u>	<u>(88,450)</u>	<u>-</u>	<u>-</u>

32. Write back of impairment allowance on balances due from clients, brokers and other receivables

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Impairment allowances on balances due from clients, brokers and other receivables:				
- individual impairment	(5,010)	1,261	-	-
Bad debts and financing written off	3,180	-	-	-
Bad debts and financing recovered	15,872	2,297	-	-
Impairment allowance for other debts	(294)	(1,767)	-	-
	<u>13,748</u>	<u>1,791</u>	<u>-</u>	<u>-</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
33. Significant related party transactions

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Group	
	2011	2010
	RM'000	RM'000
Amount due to:		
Deposits and placements - other related party	18,500	54,400
Interest payable on deposits - other related party	51	300
	<hr/>	<hr/>
	Company	
	2011	2010
	RM'000	RM'000
Deposit and placement with Kenanga Investment Bank Berhad, a subsidiary company	11,509	34,948
Interest receivable from Kenanga Investment Bank Berhad, a subsidiary company	30	6
Management fee paid to Kenanga Islamic Investors Berhad a subsidiary company	-	241
Management fee paid to Kenanga Investors Berhad, a subsidiary company	-	1,284
Rental paid to Kenanga Investment Bank Berhad, a subsidiary company	1,726	1,660
Interest on advances, charged to Kenanga Capital Sdn Bhd, a subsidiary company	37	63
Interest on subordinated loan, charged to Kenanga Deutsche Futures Sdn Bhd, a subsidiary company	1,065	440
Interest on placement with Kenanga Investment Bank Bhd, a subsidiary company	1,067	1,151
Net dividend income received from Kenanga Deutsche Future Sdn Bhd, a subsidiary company	-	5,840
Write off of intercompany balances - PSSB Corporate Services Sdn Bhd, a subsidiary company	1	4
Write off of intercompany balances - Kenanga Asset Management Sdn Bhd, a subsidiary company	7	-
Write off of intercompany balances - SSSB Management Services Sdn Bhd, a subsidiary company	5	17
Write off of intercompany balances - Kenanga Private Equity Sdn Bhd, a subsidiary company	11	10
Write off of intercompany balances - KUT Nominees (Asing) Sdn Bhd, a subsidiary company	-	2
Write off of intercompany balances - KUT Nominees (Tempatan) Sdn Bhd, a subsidiary company	-	2
Write off of intercompany balances - Kenanga Business Access Sdn Bhd, a subsidiary company	7	21
	<hr/>	<hr/>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
33. Significant related party transactions (cont'd.)

Other related parties:

<u>Name</u>	<u>Notes</u>
CMS Capital Sdn Bhd	Deemed Substantial shareholder of K & N Kenanga Holdings Berhad
Cahaya Mata Sarawak Berhad	Holding company of a deemed substantial shareholder of K & N Kenanga Holdings Berhad
Concordance Holdings Sdn Bhd	Wholly-owned subsidiary of Cahya Mata Sarawak Bhd, the holding company of CMS Capital Sdn Bhd, a deemed substantial shareholder of K & N Kenanga Holdings Berhad
PPES Works (Sarawak) Sdn Bhd	51% owned subsidiary of Cahya Mata Sarawak Bhd, the holding company of CMS Capital Sdn Bhd, a deemed substantial shareholder of K & N Kenanga Holdings Berhad

The directors are of the opinion that the above transactions were entered into in the normal course of business and have been established under terms that are no less favourable than those obtainable in transactions with unrelated parties.

34. Compensation of key management personnel

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Short term employee benefits	10,995	14,429	5,478	6,444
Post-employment benefits:				
Defined contribution plan	1,075	594	515	323
Other long-term benefits	260	228	140	96
	<u>12,330</u>	<u>15,251</u>	<u>6,133</u>	<u>6,863</u>

Included in the total compensation of key management personnel are:

Directors' remuneration	<u>4,981</u>	<u>8,342</u>	<u>2,606</u>	<u>4,072</u>
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INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
34. Compensation of key management personnel (cont'd.)

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel of the Group and of the Company include all Directors and certain members of senior management of the Group and the Company.

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Directors of the Company				
Executive directors' remuneration:				
Other emoluments	1,435	2,950	1,435	2,950
Non-executive directors' remuneration:				
Fees	2,120	1,885	847	763
Other remuneration, including meeting allowance	439	802	220	314
Total directors' remuneration	<u>3,994</u>	<u>5,637</u>	<u>2,502</u>	<u>4,027</u>
Estimated money value of benefits-in-kind	104	45	104	45
Subtotal	<u>4,098</u>	<u>5,682</u>	<u>2,606</u>	<u>4,072</u>
Directors of the Subsidiaries				
Executive directors' remuneration:				
Other emoluments	753	2,538	-	-
Non-executive directors' remuneration:				
Fees	83	67	-	-
Other remuneration, including meeting allowance	26	15	-	-
Total directors' remuneration	<u>862</u>	<u>2,620</u>	<u>-</u>	<u>-</u>
Estimated money value of benefits-in-kind	21	40	-	-
Subtotal	<u>883</u>	<u>2,660</u>	<u>-</u>	<u>-</u>
Total	<u>4,981</u>	<u>8,342</u>	<u>2,606</u>	<u>4,072</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
34. Compensation of key management personnel (cont'd.)

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Company	
	Number of Directors	
	2011	2010
Executive directors:		
RM250,001 - RM300,000	-	-
RM300,001 - RM350,000	-	-
RM350,001 - RM400,000	-	-
RM400,001 - RM450,000	-	-
RM450,001 - RM500,000	-	-
RM500,001 - RM550,000	-	-
RM1,050,001 - RM1,100,000	-	-
RM1,200,001 - RM1,250,000	-	-
RM1,400,001 - RM1,450,000	-	-
RM1,600,001 - RM1,650,000	1	-
Non-executive directors:		
Below RM50,000	-	-
RM50,001 - RM100,000	1	1
RM100,001 - RM150,000	-	1
RM150,001 - RM200,000	2	1
RM200,001 - RM250,000	3	2
RM250,001 - RM300,000	-	1
RM300,001 - RM350,000	2	1
RM350,001 - RM400,000	-	1
RM400,001 - RM450,000	1	1
RM500,001 - RM550,000	-	1
RM750,001 - RM800,000	-	-
Past directors		
Executive directors:		
Below RM50,000	-	-
RM950,001 - RM1,000,000	-	-
RM2,850,001 - RM2,900,000	-	1
Past directors		
Non-executive directors:		
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	-	-
RM200,001 - RM250,000	-	-
RM250,001 - RM300,000	-	-
RM300,001 - RM350,000	1	-

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

35. Credit transactions and exposures with connected parties

	Group	
	2011 RM'000	2010 RM'000
Outstanding credit exposures with connected parties	30,415	31,936
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	2.37%	2.50%
- which is non-performing or in default	-	-

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with paragraph 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which became effective on 1 January 2008 for the Bank's subsidiary.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank subsidiary and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank subsidiary, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank subsidiary and its connected parties.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
36. Income tax expense

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Continuing operations				
Current income tax:				
Tax expense for the year	1,594	(393)	-	-
Under provision in prior years	-	555	-	-
	<u>1,594</u>	<u>162</u>	<u>-</u>	<u>-</u>
Deferred tax (Note 15)	<u>1,198</u>	<u>(5,957)</u>	<u>(487)</u>	<u>350</u>
Total income tax expense/(credit) from continuing operations	<u>2,792</u>	<u>(5,795)</u>	<u>(487)</u>	<u>350</u>
Discontinued operation				
Current income tax:				
Malaysian income tax	-	5	-	-
Total income tax expense from discontinued operation	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>
Total income tax expense/ (credit)	<u>2,792</u>	<u>(5,790)</u>	<u>(487)</u>	<u>350</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
36. Income tax expense (cont'd.)

	Group		Company	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) before taxation:				
Continuing operations	14,869	(50,630)	(10,135)	8,742
Discontinued operation	(236)	(443)	-	-
	<u>14,633</u>	<u>(51,073)</u>	<u>(10,135)</u>	<u>8,742</u>
Tax at Malaysian statutory tax rate of 25% (2010: 25%)	3,658	(12,768)	(2,534)	2,186
Tax effect of expenses that are not deductible for tax purposes	3,755	8,998	2,056	970
Income not subject to tax	(1,363)	(3,798)	(9)	(3,486)
Deferred tax assets not recognised	269	316	-	680
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	(2,708)	(425)	-	-
Under provision of deferred tax assets in prior years	(819)	1,332	-	-
(Under)/Overprovision of income tax in prior years	-	555	-	-
	<u>2,792</u>	<u>(5,790)</u>	<u>(487)</u>	<u>350</u>
Tax savings recognised during the year arising from:				
Utilisation of current year tax losses and previously unrecognised tax losses brought forward	<u>2,708</u>	<u>425</u>	<u>-</u>	<u>-</u>

37. Earnings/(loss) per share - basic/diluted

Basic/diluted earnings/(loss) per share amounts are calculated by dividing profit/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
37. Earnings/(loss) per share - basic/diluted (cont'd.)

	2011	2010
	RM'000	RM'000
Profit/(loss) from continuing operations attributable to ordinary equity holders of the Company	7,637	(52,853)
Loss from discontinued operation attributable to ordinary equity holders of the Company	(236)	(448)
Profit/(loss) attributable to ordinary equity holders of the Company	<u>7,401</u>	<u>(53,301)</u>
	2011	2010
Weighted average number of ordinary shares in issue	<u>611,759,499</u>	<u>611,759,499</u>
Basic/diluted earnings/(loss) per share for (sen):		
Profit/(loss) from continuing operations	1.25	(8.64)
Loss from discontinued operation	(0.04)	(0.07)
Profit/(loss) for the year	<u>1.21</u>	<u>(8.71)</u>

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares during the financial year.

38. Dividend

	Group/Company	
	2011	2010
	RM'000	RM'000

Recognised during the year:**Dividend paid**

First and final dividend of 1% less tax at 25%, based on 611,759,499 ordinary shares in respect of the year ended 31 December 2009

-	<u>4,588</u>
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The directors do not recommend the payment of dividend in respect of the current financial year.

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)
39. Commitments and contingencies

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

Risk weighted exposures of the Group are as follows:

GROUP	2011			2010		
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Risk Weighted Amount RM'000
Obligation under underwriting agreements	40,944	20,472	20,472	13,439	6,720	6,720
Commitments to extend credit with maturity of less than 1 year:						
- margin	505,512	101,102	101,102	654,477	-	-
	<u>546,456</u>	<u>121,574</u>	<u>121,574</u>	<u>667,916</u>	<u>6,720</u>	<u>6,720</u>

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia's guidelines.

40. Capital commitment

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Approved and contracted for	<u>20,433</u>	<u>16,019</u>	<u>-</u>	<u>-</u>

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

 K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

41. Contingent liabilities/other commitments

	Group	
	2011	2010
	RM'000	RM'000
(i) Contingent Liabilities - Unsecured		
Contingent liabilities arising from legal actions taken by clients and a former dealer representative against the Bank subsidiary. Two of the three cases were struck out by the Court with costs. However, the plaintiffs appealed to the Court of Appeal whereby one case was dismissed and the other case was subsequently withdrawn by the plaintiff. The third plaintiff has agreed on out-of-court settlement. There is no longer any litigation pending against the Bank subsidiary.	-	2,247
The Bank subsidiary issued a guarantee to Bursa Malaysia Securities Berhad in relation to the Bank subsidiary's obligations to contribute to the clearing guarantee fund.	813	842
On 23 March 2007, the Bank subsidiary was served with a letter of demand from an individual for the transfer of 10 million shares in a listed company purportedly to subscribe at an IPO price and allegedly held by the Bank subsidiary's nominated agents in trust for the client. The Bank subsidiary had lodged a police report on this matter as it was not a placement agent for these shares and was unaware of the purported transaction. All parties have agreed to go through the Court initiated mediation. The Court Mediation Centre has yet to fix any date for mediation.	1,000	1,000
On 23 March 2007, the Bank subsidiary was served with two letters of demand from two individuals demanding the transfer to each of them 550,000 shares in a listed company. These shares were purportedly subscribed by them at an IPO price and allegedly held by the Bank subsidiary's nominated agent in trust for them. The Bank subsidiary had lodged a police report on this matter as it was not a placement agent for these shares and was unaware of these purported transactions. All parties have agreed to go through the Court initiated mediation. The Court Mediation Centre has yet to fix any date for mediation.	2,940	2,940

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
41. Contingent liabilities/other commitments (cont'd.)**(i) Contingent Liabilities - Unsecured (cont'd.)**

	Group	
	2011	2010
	RM'000	RM'000
<p>On 24 December 2008, the Bank subsidiary was served with a writ of summons from an individual alleging that the Bank subsidiary's nominated agent in trust represented that the Bank subsidiary was the placement agent for the IPO shares of five listed companies. Payments for the shares were purportedly made to the nominated agent in trust. The Bank was never appointed as placement agent for the five mentioned IPOs. The individual alleges non-receipt of the IPO shares or any sales proceeds therefrom. The Bank subsidiary's solicitors filed in an application to amend the defense on the 9 January 2012 and the hearing for this application was conducted on 13 January 2012. On 2 February 2012, the Judge allowed the Bank's application to re-amend its Amended Defence. Meanwhile, the trial of the Plaintiff's claim is scheduled for continued hearing on 22 to 23 March 2012 and further on 23 to 27 April 2012. Subject to whether the Plaintiff is recalling his witnesses, the Bank will have to start its case on 22 March 2012.</p>	<u>4,220</u>	<u>4,220</u>
<p>A subsidiary of the Company litigated against a client. The client defended and counter-claim against the Bank subsidiary. The Bank subsidiary proceeded to apply for Summary Judgment against the client, pending Mention by the Court.</p>	<u>1,000</u>	<u>1,000</u>
<p>Based on legal advice obtained, the Board of Directors is of the opinion that the Group has good grounds to defend these claims and necessary provision for liabilities have been made in the financial statements if their crystallisation are deemed as probable.</p>		
	Company	
	2011	2010
	RM'000	RM'000
<p>Corporate guarantee provided by the Company for subsidiary companies for credit facilities granted by licensed banks.</p>	<u>573,000</u>	<u>673,000</u>
<p>Corporate guarantee provided by the Company for a subsidiary company to a counter party against cash collateral.</p>	<u>35,000</u>	<u>140,000</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

41. Contingent liabilities/other commitments (cont'd.)**(ii) Non-Cancellable Operating Lease Commitments**

	Group	
	2011	2010
	RM'000	RM'000
(a) Underwriting commitments	40,944	-
(b) Future minimum rental payable:		
Within 1 year	15,686	18,474
Between one and five years	63,249	73,357
Later than 5 years	29,961	27,498
	<u>108,896</u>	<u>119,329</u>
(c) Future minimum sublease receipts:		
External parties	26,745	30,936

Operating lease payments represent rentals payable for the use of office equipment and premises. The operating lease of the Group's premises is for an initial period of 10 years with an option to renew for another 5 years and subject to rates revision every 3 years.

42. Capital management and capital adequacy**Capital management**

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the regulated subsidiaries' capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision, Bursa Securities, Securities Commission and other relevant regulators.

The primary objectives of the regulated subsidiaries' capital management are to ensure that the subsidiaries comply with externally imposed capital requirements and maintain strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to its shareholder, return capital to its shareholder or issue capital securities. Nonetheless, it is under constant scrutiny of the Board.

Capital adequacy

The Group is not required to maintain any capital adequacy ratio requirements except for the Bank subsidiary:

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

42. Capital management and capital adequacy (cont'd.)

Capital adequacy (cont'd.)

	Bank	
	2011	2010
Capital Ratios		
Core capital ratio	41.90%	41.74%
Risk-weighted capital ratio	41.90%	41.74%
	Bank	
	2011	2010
	RM'000	RM'000
Tier I capital		
Paid-up share capital	620,000	620,000
Accumulated losses	(60,269)	(68,509)
Statutory reserve	65,699	57,458
	<u>625,430</u>	<u>608,949</u>
Less: Purchased goodwill	(17,606)	(17,606)
Deferred tax assets	(12,740)	(14,645)
Total Tier I capital	<u>595,084</u>	<u>576,698</u>
Tier II Capital		
Collective impairment allowance *	7,777	6,820
Total Tier II capital	<u>7,777</u>	<u>6,820</u>
Total Capital	602,861	583,518
Less: Investment in subsidiaries	(36,150)	(36,150)
Total Capital Base	<u>566,711</u>	<u>547,368</u>

* Excludes collective impairment allowance on impaired loans restricted from Tier II capital by BNM of RM483,000 (2010: RM1,341,000) for the Bank.

Breakdown of risk weighted assets in the various categories of risk-weighted of the Bank subsidiary is as follows:

	2011		2010	
	Notional RM'000	Risk- weighted RM'000	Notional RM'000	Risk- weighted RM'000
Credit risk	2,661,584	908,886	2,684,228	979,569
Market risk	-	106,281	-	32,926
Operational risk	-	337,355	-	298,914
Total Risk Weighted Assets	<u>2,661,584</u>	<u>1,352,522</u>	<u>2,684,228</u>	<u>1,311,409</u>

The capital adequacy ratios of the Bank subsidiary as at 31 December 2011 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 ("RWCAF Basel II")

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

42. Capital Adequacy and capital management (cont'd)

- (ii) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	Bank		Bank	
	31 December 2011		31 December 2010	
	Notional amount RM'000	Risk-weighted amount RM'000	Notional amount RM'000	Risk-weighted amount RM'000
0%	562,322	-	875,709	-
20%	1,510,939	302,188	997,700	199,540
50%	-	-	110,891	55,445
100%	551,574	551,574	650,617	650,617
150%	36,749	55,124	49,311	73,967
Total Risk Weighted Assets for Credit Risk	2,661,584	908,886	2,684,228	979,569
Risk Weighted Assets Equivalent for Market Risk	-	106,281	-	32,926
Risk Weighted Assets Equivalent for Operational Risk	-	337,355	-	298,914
	<u>2,661,584</u>	<u>1,352,522</u>	<u>2,684,228</u>	<u>1,311,409</u>

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

 K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

42. Capital Adequacy and capital management (cont'd.)

(iii) The breakdown of risk-weighted assets ("RWA") by exposures in each major category for the current financial year are as follows:

Bank

At 31 December 2011

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
1 Credit Risk				
On-Balance Sheet Exposures				
Performing Exposures				
Sovereigns/Central Banks	339,959	339,959	-	-
Banks, Development Financial Institutions & MDBs	1,272,812	1,272,812	254,562	20,365
Corporates	288,867	288,867	67,734	5,418
Regulatory Retail	379	379	379	30
Higher Risk Assets	490	490	735	59
Other Assets	793,332	549,056	357,325	28,586
Equity Exposure	31,755	31,755	31,755	2,541
Defaulted Exposures				
Corporates	31,380	31,380	47,070	3,766
Other Assets	19,610	4,879	7,319	586
Total for On-Balance Sheet Exposures	2,778,584	2,519,577	766,879	61,351
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	142,007	142,007	142,007	11,360
Total for Off-Balance Sheet Exposures	142,007	142,007	142,007	11,360
Total for On and Off-Balance Sheet Exposures	2,920,591	2,661,584	908,886	72,711
2 Large Exposure Risk Requirement	-	-	-	-
3 Market Risk				
Interest rate risks	208,587	-	208,587	7,744
Equity position risks	6,700	9,147	(2,447)	359
Foreign exchange risks	75	-	75	75
Option risks	324	-	324	324
4 Operational Risk			337,355	26,988
5 Total RWA and Capital Requirements			1,352,522	108,201

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

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

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3/26/2012

42. Capital Adequacy and capital management (cont'd.)

(iii) The breakdown of risk-weighted assets ("RWA") by exposures in each major category for the current financial year are as follows:

Bank

At 31 December 2010

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
1 Credit Risk				
On-Balance Sheet Exposures				
<u>Performing Exposures</u>				
Sovereigns/Central Banks	750,403	750,403	4,019	322
Banks, Development Financial Institutions & MDBs	839,901	839,901	167,980	13,438
Corporates	142,734	142,734	59,615	4,769
Regulatory Retail	389	389	389	31
Higher Risk Assets	490	490	735	59
Other Assets	802,776	802,776	578,025	46,242
Equity Exposure	32,007	32,007	32,007	2,561
<u>Defaulted Exposures</u>				
Corporates	89,414	89,414	107,763	8,621
Other Assets	21,646	5,844	8,766	701
Total for On-Balance Sheet Exposures	2,679,760	2,663,958	959,299	76,744
Off-Balance Sheet Exposures other than OTC Derivatives or Credit Derivatives	20,270	20,270	20,270	1,622
Total for Off-Balance Sheet Exposures	20,270	20,270	20,270	1,622
Total for On and Off-Balance Sheet Exposures	2,700,030	2,684,228	979,569	78,366
2 Large Exposure Risk Requirement	-	-	-	-
3 Market Risk				
	Long Positions	Short Positions		
Interest rate risks	269,725	-	269,725	2,416
Equity position risks	6,951	7,021	(70)	46
Foreign exchange risks	2,045	-	2,045	164
Option risks	7,021	-	7,021	9
4 Operational Risk			298,914	23,913
5 Total RWA and Capital Requirements			1,311,409	104,914

The Bank subsidiary does not have any issuances of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent. 105

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

42. Capital Adequacy and capital management (cont'd.)

(iv) Credit Risk Disclosure on Risk Weights as at 31 December 2011

Bank

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
Performing Exposures								
0%	339,959	-	45,855	-	-	176,508	-	562,322
10%	-	-	-	-	-	-	-	-
20%	-	1,272,812	219,098	-	-	19,029	-	1,510,939
35%	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	23,914	379	-	495,526	31,755	551,574
150%	-	-	-	-	490	-	-	490
Total	339,959	1,272,812	288,867	379	490	691,063	31,755	2,625,325
Defaulted Exposures								
0%	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-
150%	-	-	31,380	-	-	4,879	-	36,259
Total	-	-	31,380	-	-	4,879	-	36,259
Grand Total	339,959	1,272,812	320,247	379	490	695,942	31,755	2,661,584

106

319

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

42. Capital Adequacy and capital management (cont'd.)

(iv) Credit Risk Disclosure on Risk Weights as at 31 December 2010

Bank

Risk Weights	Exposures after Netting and Credit Risk Mitigation					Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Higher Risk Assets RM'000			
Performing Exposures								
0%	730,309	-	-	-	-	145,400	875,709	-
10%	-	-	-	-	-	-	-	-
20%	20,094	839,901	46,916	-	-	90,789	997,700	199,540
35%	-	-	-	-	-	-	-	-
50%	-	-	91,172	-	-	13,439	104,611	52,305
75%	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-
100%	-	-	4,646	389	-	573,418	610,460	610,460
150%	-	-	-	-	490	-	490	735
Total	750,403	839,901	142,734	389	490	823,046	2,588,970	863,040
Defaulted Exposures								
0%	-	-	-	-	-	-	-	-
50%	-	-	6,280	-	-	-	6,280	3,140
100%	-	-	40,157	-	-	-	40,157	40,157
150%	-	-	42,977	-	-	5,844	48,821	73,232
Total	-	-	89,414	-	-	5,844	95,258	116,529
Grand Total	750,403	839,901	232,148	389	490	828,890	2,684,228	979,569

107

320

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

42. Capital Adequacy and capital management (cont'd.)

(v) Off Balance Sheet and Counterparty Credit Risk as at 31 December 2011

<u>Bank</u>	Principal Amount RM'000	Credit Conversion Factor	Credit Equivalent Amount RM'000	Risk
				Weighted Assets RM'000
Nature				
Forward Asset Purchases	20,433	100%	20,433	20,433
Obligation under an on-going underwriting agreement	40,944	50%	20,472	20,472
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	505,512	20%	101,102	101,102
	<u>566,889</u>		<u>142,007</u>	<u>142,007</u>

(v) Off Balance Sheet and Counterparty Credit Risk as at 31 December 2010

<u>Bank</u>	Principal Amount RM'000	Credit Conversion Factor	Credit Equivalent Amount RM'000	Risk
				Weighted Assets RM'000
Nature				
Forward Asset Purchases	13,551	100%	13,551	13,551
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,439	50%	6,719	6,719
	<u>26,990</u>		<u>20,270</u>	<u>20,270</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****43. Segmental information**

For management purposes, the Group is organised into business units based on their products and services, and has six reportable segments as follows:

- (i) Investment bank - Investment banking business and related financial services;
- (ii) Stockbroking - Dealings in securities and investment related services;
- (iii) Futures - Futures broker business;
- (iv) Money lending - Licensed money lender;
- (v) Investment management - Management of funds and unit trusts; and
- (vi) Corporate and others - Investment holding and management services and includes business operations conducted by the Group's associates and investment in the Kingdom of Saudi Arabia, Vietnam and Sri Lanka.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

43. Segmental reporting (cont'd.)

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

31 December 2011	Continuing Operations							Discontinued Operations	
	Investment Bank RM'000	Stockbroking RM'000	Futures RM'000	Money Lending RM'000	Investment Management RM'000	Corporate Eliminations/ Adjustments RM'000	Total RM'000		Others RM'000
Revenue									
External sales	105,032	138,492	17,412	3,727	9,570	2,674	276,907	-	276,907
Inter-segment sales	-	-	677	-	360	9,802	(10,839)	-	-
Total revenue	105,032	138,492	18,089	3,727	9,930	12,476	276,907	-	276,907
Result									
Interest income	86,556	11,359	10,068	2,430	682	2,405	110,294	(119)	110,175
Dividend income	160	490	-	-	-	763	1,413	-	1,413
Depreciation & amortisation	-	6,040	342	183	384	542	7,476	(15)	7,491
Impairment (reversal)/losses	4,069	(13,749)	-	681	-	6,850	(9,262)	-	(9,262)
Other non-cash expenses	(3,598)	828	-	1	1	(1,786)	(4,554)	-	(4,554)
Segment results	899	17,518	5,071	(2,015)	(1,882)	122	11,664	(236)	11,428
Profit from operation	56,013	17,518	9,742	(56)	(1,882)	5,999	79,285	-	79,285
Finance cost, net	(55,114)	-	(4,671)	(1,959)	-	-	(58,539)	-	(58,539)
Share of results of associates	-	-	-	-	-	(5,877)	(5,877)	-	(5,877)
Profit before taxation	899	17,518	5,071	(2,015)	(1,882)	122	14,869	-	14,869
Taxation	-	-	-	-	-	-	(2,792)	-	(2,792)
Taxation from discontinued operation	-	-	-	-	-	-	12,077	-	12,077
Profit after taxation	-	-	-	-	-	-	(4,440)	(236)	(236)
Loss from discontinued operation	-	-	-	-	-	-	(4,440)	-	(4,440)
Non-controlling interests	-	-	-	-	-	-	7,637	(236)	7,401
Net profit for the year	-	-	-	-	-	-	12,077	(236)	11,841
Assets									
Investment in associates	-	-	-	-	-	51,964	44,297	-	44,297
Additions to non-current assets	-	8,411	61	211	1,257	1,560	11,500	-	11,500
Segments assets	1,919,960	1,132,248	503,744	22,949	28,527	721,299	3,588,891	6,085	3,594,976
Segment liabilities	1,983,450	440,490	477,957	14,733	3,579	12,337	2,835,306	21	2,835,327

110

323

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

43. Segmental reporting (cont'd.)

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by operating segments:

	Continuing Operations							Discontinued Operation	
	Investment Bank RM'000	Stockbroking RM'000	Futures RM'000	Money Lending RM'000	Investment Management RM'000	Corporate Eliminations/ Adjustments RM'000	Total RM'000	Others RM'000	Total RM'000
31 December 2010									
Revenue									
External sales	74,600	166,084	17,829	8,516	13,246	16,066	296,341	-	296,341
Inter-segment sales	-	-	459	-	1,527	14,220	(16,206)	-	-
Total revenue	74,600	166,084	18,288	8,516	14,773	30,286	296,341	-	296,341
Result									
Interest Income	25,947	73,850	5,806	5,319	514	2,044	111,241	(147)	111,094
Dividend Income	204	582	-	-	-	9,659	2,634	-	2,634
Depreciation & Amortisation	-	6,240	355	203	491	480	7,662	23	7,685
Impairment losses	82,188	3,983	-	488	-	36,787	104,348	-	104,348
Other Non-cash expenses	-	(2,184)	137	1	109	(5,021)	(4,963)	-	(4,963)
Segment results	(56,318)	12,260	5,602	2,226	(717)	(29,071)	13,149	(443)	(53,312)
Profit from operation	(15,310)	12,277	7,731	5,120	(717)	(24,969)	13,149	-	(2,719)
Finance cost, net	(41,008)	(17)	(2,129)	(2,894)	-	-	2,239	-	(43,809)
Share of results of associates	-	-	-	-	-	(4,102)	-	-	(4,102)
Profit before taxation	(56,318)	12,260	5,602	2,226	(717)	(29,071)	(50,630)	-	(50,630)
Taxation	-	-	-	-	-	29,071	5,800	-	5,800
Taxation from discontinued operation	-	-	-	-	-	-	-	(5)	(5)
Profit after taxation	-	-	-	-	-	-	(44,830)	(5)	(44,835)
Loss from discontinued operation	-	-	-	-	-	-	-	(448)	(448)
Non-controlling interests	-	-	-	-	-	-	(8,018)	-	(8,018)
Net profit for the year	-	-	-	-	-	-	(52,848)	(453)	(53,301)
Assets									
Investment in associates	-	-	-	-	-	51,964	49,102	-	49,102
Additions to non-current assets	-	5,164	670	86	14	140	6,074	-	6,074
Segments assets	598,339	2,351,886	391,797	89,081	30,487	733,507	3,541,306	6,332	3,547,638
Segment liabilities	1,066,061	1,331,628	369,748	14,021	4,145	14,936	(12,488)	13	2,788,064

111

324

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

43. Segmental reporting (cont'd.)

Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements.

- A** Other material non-cash expenses consist of the following items as presented in the respective notes to the financial statements:

	2011	2010
	RM'000	RM'000
Net accretion of financial investments available-for-sale	-	1,181
Fair value changes of financial assets held-for-trading	(5,384)	(6,620)
Property, plant and equipment written off	830	476
	<u>(4,554)</u>	<u>(4,963)</u>

- B** Additions to non-current assets consist of:

	2011	2010
	RM'000	RM'000
Property, plant and equipment	11,454	6,024
Intangible assets	46	50
	<u>11,500</u>	<u>6,074</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

43. Segmental reporting (cont'd.)

Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements.

- C** The following items are added to/(deducted from) segment assets to arrive at total assets reported in the consolidated statements of financial position:

	2011	2010
	RM'000	RM'000
Goodwill	5,645	9,814
Investment in subsidiaries	(630,337)	(615,994)
Inter-segment assets	(115,144)	(47,611)
	<u>(739,836)</u>	<u>(653,791)</u>

- D** The following items are added to/(deducted from) segment liabilities to arrive at total liabilities reported in the consolidated statements of financial position:

	2011	2010
	RM'000	RM'000
Deposit accepted from subsidiaries	(51,648)	(53,485)
Inter-segment liabilities	(45,592)	40,997
	<u>(97,240)</u>	<u>(12,488)</u>

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
44. Fair value of financial assets and liabilities

The carrying amounts and the fair values of the financial assets and liabilities of the Group and the Company are as follows:

Group	2011		2010	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Cash and short-term funds	1,321,052	1,321,052	1,300,957	1,300,957
Deposits and placements with bank and other financial institutions	375	375	847	847
Financial assets held-for-trading	241,218	241,218	303,199	303,199
Financial investments available-for-sale	849,087	849,087	757,315	757,315
Loans, advances and financing	547,353	547,353	605,264	605,264
Balances due from clients and brokers	179,315	179,315	256,344	256,344
Other assets	227,580	227,580	120,637	120,637
Statutory deposits with Bank Negara Malaysia	39,490	39,490	9,150	9,150
Financial liabilities				
Deposits from customers	1,031,980	1,031,980	1,012,577	1,012,577
Deposits and placements of banks and other financial institutions	827,902	827,902	806,689	806,689
Other liabilities	950,599	950,599	880,524	880,524
Derivative financial liabilities	2,145	2,145	1,571	1,571
Subordinated obligations	1,384	1,384	1,510	1,510
Borrowings	31	31	65,757	65,757
Company				
Financial assets				
Cash and short-term funds	13,074	13,074	37,435	37,435
Financial assets held-for-trading	25,450	25,450	21,422	21,422
Other assets	16,656	16,656	13,743	13,743
Financial liabilities				
Other liabilities	1,054	1,054	1,484	1,484

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****44. Fair value of financial assets and liabilities (cont'd.)**

Note: The fair values of the other assets, other liabilities and borrowings, which are considered short-term in nature, are estimated to be approximate their carrying values.

(i) Cash and short-term funds

The carrying amounts approximate fair values due to the relatively short maturity of the financial instruments.

(ii) Deposits and placements with banks and other financial institutions

The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates for placements of similar credit risk and similar remaining maturity as at the reporting date.

(iii) Financial assets held-for-trading and Financial investments available-for-sale

The fair values are estimated based on quoted or observable market prices at the reporting date. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for a similar instrument at the reporting date.

(iv) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at the reporting date offered to new borrowers with similar credit profiles. The estimated fair value of fixed rate share margin accounts financing approximates the carrying amount as the amount is deemed repayable on demand. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual impairment allowance.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**44. Fair value of financial assets and liabilities (cont'd.)****(v) Deposits from customers**

The fair values of deposit liabilities payable on demand (demand and savings deposits), or deposits with maturity of less than one year are estimated to approximate their carrying amounts. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on expected future cash flows discounted at applicable prevailing rates offered for deposits of similar remaining maturities. The fair values of Islamic deposits are deemed to approximate their carrying amounts as profit rates are determined at the end of their holding periods based on the profit generated from the assets invested. For negotiable instruments of deposits, the fair values are estimated based on quoted or observable market prices as at the reporting date. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using the discounted cash flow technique.

(vi) Deposits and placements of banks and other financial institutions

The carrying values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments. 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.

(vii) Subordinated obligations

The fair value of the subordinated obligations is estimated based on the discounted cash flow techniques using the current yield curve appropriate for the remaining term to maturity.

(viii) Lending-related commitments

The unfunded portions of commitments to extend credit as well as standby and other letters of credit are stated at their carrying amounts, considering that estimating their fair values is not practicable within the constraints of timeliness or cost to determine with sufficient reliability.

(ix) Other liabilities

Included in other liabilities are balances due to clients and brokers. The carrying amounts are reasonable estimates of the fair values because of their short tenor.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****45. Financial risk management**

The Group adopts a proactive and continuous approach in managing risk and has established a risk management framework to ensure that adequate policies and processes are in place to identify and manage risk within defined policies and guidelines approved by the board of directors.

The Group's financial risks are centrally managed by the various committees within the delegated authority by the board of directors. These committees formulate, review and approve policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to further review by Risk Management Committee and/or board of directors.

The Risk Management Division assumes the independent oversight of risks undertaken by the Group, and takes the lead in the formulation of risk policies, controls and processes. This is further enhanced by the periodic risk assessment audit carried out by the Group's Internal Audit.

The main risk areas faced by the Group and the guidelines and policies adopted to manage them are as follows:

(a) Credit risk management

Credit risk is the risk of loss arising from declining credit quality or defaults by borrowers or counterparties through the Group's lending and stockbroking activities as well as trading, investment, and funding activities.

Credit risk exposures are managed through the application of credit approvals, structuring and monitoring process. The process includes monthly review of all impaired and closely monitored loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review are performed regularly to proactively manage any delinquency, minimise undesirable risk concentrations, maximise recoveries for impaired assets, and ensure that credit policies and procedures are complied with. Past dues and credit limit excesses are monitored and analysed by business activities i.e. lending, investing and stockbroking activities. Significant credit exposures to individual customers and counterparties, and any major concentration of credit risk related to any financial instruments are reported to the respective committees and board of directors.

Credit-related commitments risks

The Group enters into various commitments which include commitments to extend credit lines and obligation under underwriting agreements. Such commitments expose the Group to similar risks to loans and are mitigated by the same processes and policies.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****45. Financial risk management (cont'd.)****(a) Credit risk management (cont'd.)****Risk concentration: maximum exposure to credit risk without taking account of any collateral and other credit enhancement**

The Group's concentration risk is the risk of exposure to customer/counterparty or by industry sector. The Group applies single customer limits ("SCL") to protect against unacceptably large exposures to single counterparty risk and also monitors the exposure by sector on a regular basis.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography before the effect of mitigation through the use of master netting and collateral agreements is not presented as the Group's activities are principally conducted in Malaysia.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Credit risk management (cont'd.)

The Group

Industry analysis as at 31 December 2011

	Primary Agriculture RM'000	Manufacturing (incl Agri-based) RM'000	Electricity, Gas & Water Supply RM'000	Wholesale & Retail Trade and Hotel & Restaurant RM'000	Construction RM'000	Real Estate RM'000	Communications RM'000	Transport, Storage and Household Sector RM'000	Finance and Insurance RM'000	Household Sector RM'000	Others RM'000	Total RM'000
Financial Assets												
Cash and balances with banks and other financial institutions	-	-	-	-	-	-	-	-	1,321,052	-	-	1,321,052
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-	375	-	-	375
Trust deposits with licensed bank	-	-	-	-	-	-	-	-	39,490	-	-	39,490
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	-	-	29,973	-	-	29,973
Bank Negara Malaysia Monetary Notes	-	-	-	-	-	-	-	-	81,750	-	-	81,750
Malaysian Government Investment Certificates	-	-	-	-	-	-	-	-	51,879	-	-	51,879
Malaysian Government Securities	-	-	-	-	-	-	-	-	4,985	-	-	4,985
Corporate Bonds	-	-	-	-	-	-	-	-	-	-	-	40,000
Islamic Corporate Bonds	-	-	9,960	-	-	9,934	-	-	-	-	32,631	32,631
Securities quoted in Malaysia	-	-	-	-	-	-	-	-	-	-	-	-
Loans, advances and financing	-	-	-	-	-	-	30,898	-	23,555	-	-	54,453
Term loans	-	-	-	-	-	-	-	-	-	5,765	487,135	492,900
Share margin financing	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments available-for-sale	-	-	-	-	-	-	-	-	198,267	-	-	198,267
Malaysian Government Securities	-	-	-	-	-	-	-	-	102,140	-	-	102,140
Malaysian Government Investment Certificates	-	-	-	-	-	-	-	-	20,693	-	-	20,693
Islamic Corporate Bonds	-	20,614	31,316	-	-	45,793	15,565	-	39,061	-	20,105	154,086
Corporate Bills	-	-	-	-	-	-	-	-	175,677	-	-	175,677
Corporate Bonds	-	4,993	15,120	21,346	-	-	-	-	99,999	-	-	141,458
Cagamas Bonds	-	-	-	-	-	-	-	-	-	-	-	5,164
Negotiable Instruments of Deposits	-	-	-	-	-	-	-	-	-	-	-	99,999
Unquoted Equities	-	-	-	-	-	-	-	-	-	-	2,590	2,590
Other assets	-	-	-	-	-	-	-	-	167,728	-	-	167,728
Assets segregated by customers	-	25,607	56,396	21,346	-	55,727	66,569	-	2,361,788	5,765	573,105	3,166,303

119

332

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Credit risk management (cont'd.)

The Group

Industry analysis as at 31 December 2010

	Primary Agriculture RM'000	Manufacturing (incl Agri-based) RM'000	Electricity, Gas & Water Supply RM'000	Wholesale & Retail Trade and Hotel & Restaurant RM'000	Construction RM'000	Real Estate RM'000	Storage and Communications RM'000	Transport, Finance and Insurance RM'000	Household Sector RM'000	Others RM'000	Total RM'000
Financial Assets											
Cash and balances with banks and other financial institutions	-	-	-	-	-	-	-	1,300,957	-	-	1,300,957
Deposits and placements with financial institutions	-	-	-	-	-	-	-	847	-	-	847
Trust deposits with licensed bank	-	-	-	-	-	-	-	9,150	-	-	9,150
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	129,969	129,969
Bank Negara Malaysia Monetary Notes	-	-	-	-	-	-	-	-	-	65,391	65,391
Malaysian Government Investment Certificate	-	-	-	-	-	-	-	-	-	24,708	24,708
Corporate Bills	-	-	-	-	-	-	-	39,835	-	-	39,835
Islamic Corporate Bonds	-	-	-	-	-	-	9,821	-	-	-	9,821
Securities quoted in Malaysia	2,582	-	-	8,624	1,817	2,023	1,682	3,632	4,406	8,709	33,475
Loans, advances and financing	-	-	-	-	-	-	-	-	-	-	-
Term loans	-	6,186	-	-	33,941	-	39,554	12,969	-	-	92,650
Share margin financing	-	-	-	-	-	-	-	-	-	443,227	443,227
Others	-	-	28	-	4,411	-	-	-	-	64,948	69,387
Financial investments available-for-sale	-	-	-	-	-	-	-	-	-	-	-
Malaysian Government Securities	-	-	-	-	-	-	-	-	-	381,269	381,269
Malaysian Government Investment Certificates	-	-	-	-	-	-	-	-	-	119,720	119,720
Islamic Corporate Bonds	-	-	-	93,176	-	26,214	-	-	-	-	119,390
Corporate Bonds	-	-	-	-	-	-	-	134,094	-	-	134,094
Quoted Equities	-	-	-	-	-	-	-	-	-	252	252
Unquoted Equities	-	-	-	-	-	-	-	-	-	2,590	2,590
Other assets	-	-	-	-	-	-	-	86,291	-	-	86,291
Assets segregated by customers	-	-	28	101,800	40,169	28,237	51,057	1,587,775	4,406	1,240,783	3,063,023
	2,582	6,186	28	101,800	40,169	28,237	51,057	1,587,775	4,406	1,240,783	3,063,023

120

333

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****45. Financial risk management (cont'd.)****(a) Credit risk management (cont'd.)****Collateral and Other Credit Enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- (i) Cash;
- (ii) Charges over financial instruments;
- (iii) Charges over real estate properties, inventory and trade receivables;
- (iv) Mortgages over properties;
- (v) Financial guarantees

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

(i) Credit Quality By Class of Financial Assets As At 31 December 2011

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system.

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal Rating

Strong Credit Profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings "AAA" to "AA" of RAM and MARC respectively.
Satisfactory Risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings "A" to "BBB" of RAM and MARC respectively.
Substandard but not past due not impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings "BB" to "C" of RAM and MARC respectively.

	Neither past due nor impaired			Non Rated	Past due but not impaired	Default/ Impaired	Individually impaired	Total
	Strong Credit Profile	Satisfactory Risk	Sub-standard					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,141,052	180,000	-	-	-	-	-	1,321,052
Deposits and placements with financial institutions								
Trust deposits with licensed bank	375	-	-	-	-	-	-	375
Statutory Deposit with Bank Negara Malaysia	39,490	-	-	-	-	-	-	39,490
Financial assets held-for-trading								
Bank Negara Malaysia Monetary Notes	29,973	-	-	-	-	-	-	29,973
Malaysian Government Securities	51,879	-	-	-	-	-	-	51,879
Malaysian Government Investment Certificates	81,750	-	-	-	-	-	-	81,750
Corporate Bills	4,985	-	-	-	-	-	-	4,985
Islamic Corporate Bonds	40,000	-	-	-	-	-	-	40,000
Securities quoted in Malaysia	32,631	-	-	-	-	-	-	32,631
Loans, advances and financing								
Term loans	-	23,914	-	-	-	33,804	(2,424)	55,294
Share margin financing	476,219	9,195	-	-	-	23,393	(14,253)	494,554
Others	1,051	4,714	-	-	-	14,162	(14,162)	5,765
Financial investments available-for-sale								
Malaysian Government Securities	198,267	-	-	-	-	-	-	198,267
Malaysian Government Investment Certificates	102,140	-	-	-	-	-	-	102,140
Islamic Corporate Bonds	154,086	-	-	-	-	-	-	154,086
Corporate Bonds	247,780	-	-	-	-	-	-	247,780
Corporate Bills	39,061	-	-	-	-	-	-	39,061
Cagamas Bonds	5,164	-	-	-	-	-	-	5,164
Negotiable Instruments of Deposits	99,999	-	-	-	-	-	-	99,999
Unquoted Equities	2,590	-	-	-	-	-	-	2,590
Other assets								
Assets segregated by customers	167,728	-	-	-	-	-	-	167,728
Total	2,916,220	217,823	-	-	-	71,359	(30,839)	3,174,563

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

(i) Credit Quality By Class of Financial Assets As At 31 December 2010

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system.

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal Rating

Strong Credit Profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings "AAA" to "AA" of RAM and MARC respectively.
Satisfactory Risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings "A" to "BBB" of RAM and MARC respectively.
Substandard but not past due not impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings "BB" to "C" of RAM and MARC respectively.

	Neither past due nor impaired			Non Rated	Past due but not impaired	Default/ Impaired	Individually impaired	Total
	Strong Credit Profile	Satisfactory Risk	Sub-standard					
	RM'000	RM'000	RM'000					
Cash and balances with banks and other financial institutions	1,110,975	180,027	-	9,955	-	-	-	1,300,957
Deposits and placements with financial institutions								
Trust deposits with licensed bank	847	-	-	-	-	-	-	847
Statutory Deposit with Bank Negara Malaysia	9,150	-	-	-	-	-	-	9,150
Financial assets held-for-trading								
Bank Negara Malaysia Monetary Notes	129,969	-	-	-	-	-	-	129,969
Malaysian Government Securities	65,391	-	-	-	-	-	-	65,391
Corporate Bills	64,543	-	-	-	-	-	-	64,543
Islamic Corporate Bonds	9,821	-	-	-	-	-	-	9,821
Securities quoted in Malaysia	33,475	-	-	-	-	-	-	33,475
Loans, advances and financing								
Term loans	-	4,017	630	-	42,977	131,727	(85,289)	94,062
Share margin financing	439,884	3,473	-	-	-	21,506	(14,888)	449,975
Others	691	68,696	-	-	-	10,876	(10,876)	69,387
Financial investments available-for-sale								
Malaysian Government Securities	381,269	-	-	-	-	-	-	381,269
Malaysian Government Investment Certificates	119,720	-	-	-	-	-	-	119,720
Islamic Corporate Bonds	28,218	91,172	-	-	-	-	-	119,390
Corporate Bonds	134,094	-	-	-	-	-	-	134,094
Quoted Equities	252	-	-	-	-	-	-	252
Unquoted Equities	2,590	-	-	-	-	-	-	2,590
Other assets								
Assets segregated by customers	86,291	-	-	-	-	-	-	86,291
Total	2,617,180	347,385	630	9,955	42,977	164,109	(111,053)	3,071,183

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

(ii) Credit Risk Exposure For Each Internal Credit Risk Rating

Group's Internal Credit Rating	Group Total 2011 RM'000
Strong	
AAA	2,769,266
AA	146,954
Satisfactory	
A	217,823
BBB	-
Poor	
BB	-
C	-
Default	
D	40,520
Non Rated	-
	3,174,563

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

ii) Credit Risk Exposure For Each Internal Credit Risk Rating (cont'd.)

Group's Internal Credit Rating	Group Total 2010 RM'000
Strong	
AAA	2,470,226
AA	146,954
Satisfactory	
A	347,385
BBB	-
Poor	
BB	630
C	42,977
Default	
D	53,056
Non Rated	9,955
	3,071,183

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

(iii) Aging analysis of loans, advances and financing which are past due but not impaired

The Group

	Less than 1 month RM'000	> 1 to 2 months RM'000	> 2 to 3 months RM'000	> 3 to 4 months RM'000	> 4 to 5 months RM'000	> 5 to 9 months RM'000	> 9 months RM'000	Total RM'000
31 December 2011	-	-	-	-	-	-	-	-
Loans, advances and financing	-	-	-	-	-	-	-	-
Term loans	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
31 December 2010	42,130	-	-	847	-	-	-	42,977
Loans, advances and financing	42,130	-	-	847	-	-	-	42,977
Term loans	-	-	-	-	-	-	-	-
Total	42,130	-	-	847	-	-	-	42,977

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

(iv) Estimated value of collateral and other charges related to loans, advances and financing that are past due but not impaired

The Group

31 December 2011

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Loans, advances and financing	-	-	-	-	-	-
Term loans	-	-	-	-	-	-

31 December 2010

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Loans, advances and financing	318,137	9,000	-	327,137	42,977	-
Term loans	318,137	9,000	-	327,137	42,977	-

127

340

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(a) Credit risk management (cont'd.)

(v) Estimated value of collateral and other charges related to loans, advances and financing that are past due and individually impaired

The Group

31 December 2011

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Loans, advances and financing						
Term loans	-	-	31,380	31,380	33,804	2,424
Share margin financing	-	-	9,140	9,140	23,393	14,253
Others	-	-	-	-	14,162	14,162
	-	-	40,520	40,520	71,359	30,839

31 December 2010

	Cash and securities RM'000	Real estate RM'000	Other RM'000	Total value of collateral RM'000	Credit exposure RM'000	Unsecured portion of credit exposure RM'000
Loans, advances and financing						
Term loans	-	6,280	40,158	46,438	131,727	85,289
Share margin financing	-	-	6,618	6,618	21,506	14,888
Others	-	-	-	-	10,876	10,876
	-	6,280	46,776	53,056	164,109	111,053

128

341

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)****45. Financial risk management (cont'd.)****(b) Market risk**

Market risk is the risk of loss arising from adverse movement in market rates or prices; the main components being interest rate risk, foreign exchange risk and equity price risk. The objective of market risk management is to ensure unexpected losses from on-balance sheet positions arising from adverse market movements are maintained with the Group's capabilities and financial capacities.

Market risk is governed by the Group's and the Bank subsidiary's Market Risk Management policies of the respective portfolios. These policies set out the basis of allocation, management and capital treatment of the trading portfolio, basis of valuation, policy on hedging activity and trading limits and maximum holding periods. In addition to monitoring compliance to risk policies and limits, the Group adopted the value-at-risk ("VAR") approach in the measurement of market risks, independent mark-to-market valuations and stress testing of portfolios and positions.

(i) Interest rate risk

In macro terms, interest rate risk refers to the overall sensitivity of the Group's earnings and/or economic values of the Group's portfolio to changes in interest rates. Interest rate risk is managed through various risk management techniques including re-pricing gap, net interest income simulation and stress testing.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The effect of changes in the levels of interest rates on the market value of securities is monitored regularly and the outcome of mark-to-market valuations is escalated to Management regularly. The table below summarises the effective interest rates at the reporting date and the periods in which the financial instruments will reprice or mature, whichever is the earlier.

The board has established limits on the trading interest rate gaps for stipulated periods. In accordance with the Group's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The sensitivity of the statements of comprehensive income and equity is the effect of the assumed changes in interest rates on the profit and loss for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2011, including the effect of hedging instruments.

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)**(b) Market risk (cont'd.)****(i) Interest rate risk (cont'd.)**

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variable held constant, of the Group's statements of comprehensive income and equity.

The Group

Increase/ (decrease) in basis points 2011	Sensitivity of Profit or Loss 2011 RM'000	Sensitivity of Equity 2011 RM'000
+100	(10,285)	(31,010)
-100	10,285	31,010

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

45. Financial risk management (cont'd.)
(b) Market risk (cont'd.)
(i) Interest rate risk (cont'd.)

GROUP 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short term funds	669,050	-	-	-	-	652,002	-	1,321,052	3.00
Deposits and placement with financial institutions	-	-	-	-	-	375	-	375	
Financial assets held-for-trading	-	-	-	-	-	-	241,218	241,218	3.79
Financial investments	-	99,999	64,189	381,939	300,370	2,590	-	849,087	4.27
Loans, advances and financing available-for-sale	485,414	551	5,214	23,914	-	-	-	515,093	7.38
- non-impaired	-	-	-	-	-	32,260	-	32,260	
- impaired *	-	-	-	-	-	179,315	-	179,315	
Balances due from clients and brokers	-	-	-	-	-	64,704	-	64,704	
Other assets	-	-	-	-	-	167,728	-	167,728	
Assets segregated by customers	-	-	-	-	-	224,144	-	224,144	
Other non interest sensitive balances	-	-	-	-	-	-	-	-	
Total assets	1,154,464	100,550	69,403	405,853	300,370	1,323,118	241,218	3,594,976	
Liabilities									
Deposits from customers	888,525	134,925	8,530	-	-	-	-	1,031,980	3.23
Deposits and placement of banks and other financial institutions	619,981	127,925	79,996	-	-	-	-	827,902	3.23
Borrowings	31	-	-	-	-	-	-	31	5.21
Subordinated obligations	-	-	-	1,384	-	-	-	1,384	5.50
Other non interest sensitive balances	-	-	-	-	-	974,030	-	974,030	
Total liabilities	1,508,537	262,850	88,526	1,384	-	974,030	-	2,835,327	
Equity	-	-	-	-	-	752,687	-	752,687	
Non-controlling interest	-	-	-	-	-	6,962	-	6,962	
Total liabilities and equity	1,508,537	262,850	88,526	1,384	-	1,733,679	-	3,594,976	
On-balance sheet interest sensitivity gap	(354,073)	(162,300)	(19,123)	404,469	300,370	(410,561)	241,218	-	
Cumulative interest sensitivity gap	(354,073)	(516,373)	(535,496)	(131,027)	169,343	(241,218)	-	-	

131

344

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

GROUP 2010	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short term funds	736,242	-	-	-	-	564,715	-	1,300,957	2.72
Deposits and placement with financial institutions	-	-	-	-	-	847	-	847	
Financial assets held-for-trading	-	-	-	-	-	21,423	281,776	303,199	3.92
Financial investments available-for-sale	122,654	-	64,323	545,723	20,002	4,613	-	757,315	4.19
Loans, advances and financing - non-impaired	443,658	69,416	4,317	-	-	-	-	517,391	7.56
- impaired *	-	-	-	-	-	87,873	-	87,873	
Other assets	-	-	-	-	-	290,690	-	290,690	
Assets segregated by customers	-	-	-	-	-	86,291	-	86,291	
Other non interest sensitive balances	-	-	-	-	-	203,075	-	203,075	
Total assets	1,302,554	69,416	68,640	545,723	20,002	1,259,527	281,776	3,547,638	
Liabilities									
Deposits from customers	790,351	163,023	59,203	-	-	-	-	1,012,577	3.07
Deposits and placement of banks and other financial institutions	225,326	512,745	68,618	-	-	-	-	806,689	3.07
Borrowings	65,757	-	-	-	-	-	-	65,757	5.01
Subordinated obligations	-	-	-	1,510	-	-	-	1,510	5.00
Other non interest sensitive balances	-	-	-	-	-	901,531	-	901,531	
Total liabilities	1,081,434	675,768	127,821	1,510	-	901,531	-	2,788,064	
Equity	-	-	-	-	-	743,868	-	743,868	
Non-controlling interest	-	-	-	-	-	15,706	-	15,706	
Total liabilities and equity	1,081,434	675,768	127,821	1,510	-	1,661,105	-	3,547,638	
On-balance sheet interest sensitivity	-	-	-	-	-	-	-	-	
Off-balance sheet interest sensitivity gap	221,120	(606,352)	(59,181)	544,213	20,002	(401,578)	281,776	-	
Cumulative interest sensitivity gap	221,120	(385,232)	(444,413)	99,800	119,802	(281,776)	-	-	

* This is arrived at after deducting collective allowance and individual allowance from the outstanding gross impaired loans.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

COMPANY 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short term funds	13,074	-	-	-	-	-	-	13,074	2.35
Financial assets held-for-trading	-	-	-	-	-	25,450	-	25,450	
Other assets	-	-	-	-	-	16,691	-	16,691	
Other non interest sensitive balances	-	-	-	-	-	650,660	-	650,660	
Total assets	13,074	-	-	-	-	692,801	-	705,875	
Liabilities									
Other non interest sensitive balances	-	-	-	-	-	7,020	-	7,020	
Total liabilities	-	-	-	-	-	7,020	-	7,020	
Equity	-	-	-	-	-	698,855	-	698,855	
Total liabilities and equity	-	-	-	-	-	705,875	-	705,875	
On-balance sheet interest sensitivity gap	13,074	-	-	-	-	(13,074)	-	-	
Total cumulative interest sensitivity gap	13,074	13,074	13,074	13,074	13,074	-	-	-	

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(b) Market risk (cont'd.)

(i) Interest rate risk (cont'd.)

COMPANY 2010	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short term funds	37,435	-	-	-	-	-	-	37,435	2.35%
Financial assets held-for-trading	-	-	-	-	-	21,422	-	21,422	
Other assets	-	-	-	-	-	13,743	-	13,743	
Other non interest sensitive balances	-	-	-	-	-	642,415	-	642,415	
Total assets	37,435	-	-	-	-	677,580	-	715,015	
Liabilities									
Other non interest sensitive balances	-	-	-	-	-	6,512	-	6,512	
Total liabilities	-	-	-	-	-	6,512	-	6,512	
Equity	-	-	-	-	-	708,503	-	708,503	
Total liabilities and equity	-	-	-	-	-	715,015	-	715,015	
On-balance sheet interest sensitivity gap	37,435	-	-	-	-	(37,435)	-	-	
Total cumulative interest sensitivity gap	37,435	37,435	37,435	37,435	37,435	-	-	-	

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)**(b) Market risk (cont'd.)****(ii) Foreign currency exchange risk**

Currency risk is the risk of loss arising from changes in currency rates of the respective currencies.

The Group is exposed to transactional currency risk primarily through trading that are denominated in a currency other than the functional currency of the operations to which they relate. The Group's foreign exchange activity is governed by the Foreign Exchange Risk Management policy which stipulates the net open position, overnight exposures and counterparty limits. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

	Group	
	Net Financial Assets/ (Liabilities) Held in Non Functional Currency	
	2011	2010
	RM'000	RM'000
United States Dollars (USD)		
Assets segregated for customers	84,879	36,142
Trade payables	(84,848)	(36,112)
	<u>31</u>	<u>30</u>

The sensitivity of the statements of comprehensive income is the effect of the assumed changes in currency on the profit or loss for the year, based on the financial assets and financial liabilities held at 31 December 2011.

The following table demonstrates the sensitivity to a reasonable possible change in currency rates, with all other variable held constant, of the Group's statements of comprehensive income and equity.

The Group

Currency	Increase/ (decrease) in basis points 2011	Sensitivity of Profit or Loss 2011 RM'000	Sensitivity of Equity 2011 RM'000
USD	-5%	(16)	-
SGD	-5%	(14)	-
HKD	-5%	(4)	-
GBP	-5%	(12)	-
	135		
	348		

 INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(b) Market risk (cont'd.)

(iii) Equity Price Sensitivity Analysis

Equity price risk is the risk of loss arising from changes in prices of equity instruments.

The sensitivity of the statements of comprehensive income is the effect of the assumed changes in equity price on the profit or loss for the year, based on the financial assets and financial liabilities held at 31 December 2011.

The following table demonstrates the sensitivity to a reasonable possible change in equity price with all other variable held constant, of the Group's statements of comprehensive income and equity.

The Group

Increase/ (decrease) in basis points 2011	Sensitivity of Profit or Loss 2011 RM'000	Sensitivity of Equity 2011 RM'000
+30%	2,154	-
-30%	(2,154)	-

(c) Liquidity risk

Liquidity risk is the risk of loss as a result of the Group's and the Bank's subsidiary inability to meet cash flows obligations on a timely and cost effective manner. Liquidity risk is managed through the New Liquidity Framework issued by Bank Negara Malaysia and internal policies and Asset and Liability Committee ("ALCO") benchmarks. The Group has formulated plans on contingency funding which identifies the indicators of impending funding and liquidity crisis and stipulates the funding strategies to be implemented on a timely basis to manage liquidity risk.

The Group actively manages its operating cash flows and the availability of funding so as to ensure that all funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements in addition to maintaining available banking facilities, to meet any immediate operating cash flows requirements.

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)**(c) Liquidity risk (cont'd.)**

In accordance with BNM's New Liquidity Framework, the Group maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flows. In addition, the Group maintains a statutory deposit with Bank Negara Malaysia equal to 4% of its eligible liabilities.

The Group stresses the importance of stable funding source to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer deposits, together with term funding with a remaining term to maturity in excess of one year.

The Group**Liquidity Ratios****Loans to Deposit Ratios**

Year-end	35%
Maximum	44%
Minimum	32%
Average	38%

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(c) Liquidity risk (cont'd.)

(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities

The table below summarises the contractual maturity profile of the Group's financial assets and liabilities as at 31 December 2011. The contractual maturity profile often may not reflect the actual behavioural patterns.

The Group

31 December 2011

	On Demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial Assets									
Cash and short term funds	96,708	1,224,344	-	-	-	-	-	-	1,321,052
Deposits and placement with financial institutions	-	375	-	-	-	-	-	-	375
Financial assets held-for-trading	32,631	29,973	-	-	-	178,614	-	-	241,218
Financial investments available-for-sale	2,590	-	99,999	39,061	25,128	682,309	-	-	849,087
Loans, advances and financing	-	487,135	551	5,214	-	54,453	-	-	547,353
Other assets	-	244,019	-	-	-	-	-	-	244,019
Assets segregated by customers	167,728	-	-	-	-	-	-	-	167,728
Other non interest sensitive balances	-	-	-	-	-	-	-	224,144	224,144
Total Assets	299,657	1,985,846	100,550	44,275	25,128	915,376	-	224,144	3,594,976
Financial Liabilities									
Deposits from customers	-	888,525	134,925	8,000	530	-	-	-	1,031,980
Deposits and placements of banks and other financial institutions	-	619,981	127,925	60,000	19,996	-	-	-	827,902
Borrowings	-	31	-	-	-	-	-	-	31
Subordinated bonds	-	-	-	-	-	1,384	-	-	1,384
Balances due to clients and brokers	-	-	-	-	-	-	-	135,213	135,213
Other non interest sensitive balances	-	-	-	-	-	-	-	838,817	838,817
Total Liabilities	-	1,508,537	262,850	68,000	20,526	1,384	-	974,030	2,835,327
Net Maturity Mismatch	299,657	477,309	(162,300)	(23,725)	4,602	913,992	-	(749,886)	759,649

138

351

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(c) Liquidity risk (cont'd.)

(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (cont'd.)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

The Group

31 December 2011

	On Demand	Up to 1	>1 to 3	>3 to 6	>6 to 12	>1 to 5	Over	Total
	RM'000	month	months	months	months	years	5 years	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial guarantees	573,000	-	-	-	-	-	-	573,000
Obligation under an on-going underwriting agreement	40,944	-	-	-	-	-	-	40,944
Other undrawn commitments to lend	505,512	-	-	-	-	-	-	505,512
Other commitments and guarantees	35,000	-	-	-	-	-	-	35,000
Total commitments and guarantees	1,154,456	-	-	-	-	-	-	1,154,456

139

352

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

45. Financial risk management (cont'd.)
(c) Liquidity risk (cont'd.)
(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (cont'd.)

The table below summarises the contractual maturity profile of the Group's financial assets and liabilities as at 31 December 2011. The contractual maturity profile often may not reflect the actual behavioural patterns.

The Group
31 December 2010

	On Demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial Assets									
Cash and short term funds	94,304	1,206,653	-	-	-	-	-	-	1,300,957
Deposits and placement with financial institutions	-	-	-	-	847	-	-	-	847
Financial assets held-for-trading	6,951	191,450	24,708	14,699	-	34,934	30,457	-	303,199
Financial investments available-for-sale	742	-	2,005	20,094	40,216	692,158	2,100	-	757,315
Loans, advances and financing	-	484,198	69,416	630	3,687	47,333	-	-	605,264
Other assets	-	-	-	-	-	-	-	290,690	290,690
Assets segregated by customers	86,291	-	-	-	-	-	-	-	86,291
Other non interest sensitive balances	-	-	-	-	-	-	-	203,075	203,075
Total Assets	188,288	1,882,301	96,129	35,423	44,750	774,425	32,557	493,765	3,547,638
Financial Liabilities									
Deposits from customers	-	790,351	163,023	58,689	514	-	-	-	1,012,577
Deposits and placements of banks and other financial institutions	-	225,326	512,745	28,558	40,060	-	-	-	806,689
Borrowings	-	65,757	-	-	-	-	-	-	65,757
Subordinated bonds	-	-	-	-	-	1,510	-	-	1,510
Balances due to clients and brokers	-	-	-	-	-	-	-	592,575	592,575
Other non interest sensitive balances	-	-	-	-	-	-	-	308,956	308,956
Total Liabilities	-	1,081,434	675,768	87,247	40,574	1,510	-	901,531	2,788,064
Net Maturity Mismatch	188,288	800,867	(579,639)	(51,824)	4,176	772,915	32,557	(407,766)	759,574

140

353

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

**K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**
45. Financial risk management (cont'd.)
(c) Liquidity risk (cont'd.)
(i) Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (cont'd.)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

The Group
31 December 2010

	On Demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial guarantees	602,000	10,000	60,000	-	1,000	-	-	673,000
Obligation under an on-going underwriting agreement	13,439	-	-	-	-	-	-	13,439
Other undrawn commitments to lend	654,477	-	-	-	-	-	-	654,477
Other commitments and guarantees	140,000	-	-	-	-	-	-	140,000
Total commitments and guarantees	1,409,916	10,000	60,000	-	1,000	-	-	1,480,916

141

354

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

45. Financial risk management (cont'd.)

(c) Liquidity risk (cont'd.)

(ii) Maturity analysis of financial liabilities on an undiscounted basis

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

The Group

	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 year	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011							
Financial Liabilities							
Deposits from customers	890,121	135,630	8,099	544	-	-	1,034,394
Deposits and placements of banks and other financial institutions	620,696	128,696	60,642	20,526	-	-	830,560
Borrowings	31	-	-	-	-	-	31
Subordinated bonds	-	-	-	34	1,519	-	1,553
Others	-	-	-	-	-	974,029	974,029
Total Liabilities	1,510,848	264,326	68,741	21,104	1,519	974,029	2,840,567
31 December 2010							
Deposits from customers	795,560	163,816	59,336	527	-	-	1,019,239
Deposits and placements of banks and other financial institutions	225,712	514,991	28,857	41,088	-	-	810,648
Borrowings	66,018	-	-	-	-	-	66,018
Subordinated bonds	-	-	-	33	1,587	-	1,620
Others	-	-	-	-	-	901,531	901,531
Total Liabilities	1,087,290	678,807	88,193	41,648	1,587	901,531	2,799,056

142

355

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)**45. Financial risk management (cont'd.)****(d) Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or resulting from external events.

Operational risk is managed through an effective operational risk management framework which include development of policies, processes and procedures for managing operational risk in the Group's products, activities, processes and system, effective internal audit function, monitoring and reporting by independent risk management function and oversight by the management and board of directors.

The operational risk management processes include identifying and assessing operational risks inherent in the Group's existing as well as new products, activities, processes and systems, monitoring of operational risk profiles and reporting of material exposures, documented policies, processes and procedures to control and mitigate material operational risks and contingency and business continuity plans.

46. Fair value of financial instruments**(a) Fair value measurements**

Effective 1 January 2011, the Group adopted the Amendments to FRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)
46. Fair value of financial instruments (cont'd.)**(a) Fair value measurements (cont'd.)****Group****31 December 2011**

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Assets				
Financial assets at fair value through profit or loss				
- Debt securities	-	208,587	-	208,587
- Equity securities and unit trusts	32,631	-	-	32,631
Available-for-sale financial investment #				
- Debt securities	-	746,498	-	746,498
- Negotiable Instruments of Deposits	-	99,999	-	99,999
Total assets	32,631	1,055,084	-	1,087,715
Liabilities				
Financial assets at fair value through profit or loss				
- Derivatives	2,145	-	-	2,145
Total liabilities	2,145	-	-	2,145

Excludes unquoted securities stated at cost of RM2,590,000

Company

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities and unit trusts	25,450	-	-	25,450
Total assets	25,450	-	-	25,450

144

357

 INFORMATION ON KNKH GROUP (*Cont'd*)

302859-X

K & N Kenanga Holdings Berhad
 (Incorporated in Malaysia)

47. Comparative figures

The presentation and classification of items in the current year's financial statements are consistent with the previous financial year except for the following comparative figures which have been restated to conform with current year's presentation:

	As previously reported RM'000	Restatement RM'000	As restated RM'000
Statement of Financial Position as at 31 December 2010			
Group			
Cash and short-term funds	1,035,480	265,477	1,300,957
Balances due from clients and brokers	258,753	(2,409)	256,344
Other assets	383,705	(263,068)	120,637
Statement of Comprehensive Income for the financial year ended 31 December 2010			
Group			
Continuing Operations			
Operating revenue	307,879	(11,538)	296,341
Other operating income	201,797	(4,958)	196,839
Other operating expenses	(211,262)	4,958	(206,304)

INFORMATION ON KNKH GROUP (Cont'd)

302859-X

K & N Kenanga Holdings Berhad
(Incorporated in Malaysia)

48. Breakdown of realised and unrealised profits

The breakdown of the retained profits of the Group and of the Company as at 31 December 2011 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	2011	
	Group RM'000	Company RM'000
Company and subsidiaries		
Total retained profits/(accumulated losses)		
-realised	(273,310)	74,184
-unrealised	26,882	12,837
	<u>(246,428)</u>	<u>87,021</u>
Associated companies		
Total accumulated losses		
-realised	(16,758)	-
-unrealised	(177)	-
	<u>(16,935)</u>	<u>-</u>
Consolidation adjustments	<u>271,862</u>	<u>-</u>
Total retained profits	<u>8,499</u>	<u>87,021</u>

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON

**Ernst & Young**

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**REPORTING ACCOUNTANTS' LETTER ON UNAUDITED
PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Prepared for inclusion in the Circular)**

The Board of Directors
ECM Libra Financial Group Berhad
2nd Floor West Wing Bangunan ECM Libra
8 Jalan Damansara Endah
Damansara Heights
50490 Kuala Lumpur

6 July 2012

Dear Sirs

**ECM LIBRA FINANCIAL GROUP BERHAD ("ECM" OR THE "COMPANY")
UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION AS AT 31 JANUARY 2012**

We report on the accompanying unaudited proforma consolidated statements of financial position of ECM Libra Financial Group Berhad and its subsidiaries ("ECM Group") as at 31 January 2012 as set out in the Appendix I to this letter (which we have stamped for the purpose of identification), which have been prepared on the basis described in the notes to the unaudited proforma consolidated statements of financial position, for illustrative purposes only. The unaudited proforma consolidated statements of financial position have been prepared to provide information about how the consolidated statement of financial position of ECM Group as at 31 January 2012 that has been presented might have been affected had the following Proposals, as explained below, been completed on that date.

The Proposals involve the following:

- (i) Proposed disposal of 100% equity interest in ECM Libra Investment Bank Berhad ("ECMIB") to Kenanga Investment Bank Berhad ("KIBB") for a total disposal consideration of RM875,114,000 (subject to post-closing adjustment) ("Proposed Disposal").

The sale consideration is to be satisfied via the following:

- Cash of RM659,614,000;

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



- Issuance of non-convertible redeemable unsecured loan stocks by K & N Kenanga Holdings Berhad ("K&N") of RM95,500,000; and
 - Issuance of 120,000,000 new ordinary shares of RM1 each of K&N ("K&N Shares").
- (ii) Proposed purchase of securities and other investments and loan portfolios (collectively known as "Retained Assets") by ECM from ECMIB for cash.

The purchase consideration of the securities and other investments shall be based on "marked-to-market value" for those shares traded on Bursa Malaysia Securities Berhad ("Bursa Securities") or for those not traded on Bursa Securities, at fair value ("Proposed Retained Assets").

- (iii) Proposed capital restructuring comprising the following:
- Proposed capital repayment to ECM's entitled shareholders comprising a total of RM442,647,000 in cash, 120,000,000 K&N Shares and RM47,750,000 nominal value of redeemable unsecured loan stocks issued by K&N (Series A), via a reduction of the par value of the ordinary shares of RM1.00 each in ECM by an amount to be determined ("Proposed Capital Repayment");
 - Proposed share split involving the subdivision of the ordinary shares of ECM after the Proposed Capital Repayment ("Proposed Share Split"); and
 - Proposed consolidation of the required number of ordinary shares in ECM after the Proposed Share Split into one ordinary share of RM1.00 each in ECM.

(Collectively known as the "Proposals")

The unaudited proforma consolidated statements of financial position, because of their nature, may not be reflective of ECM Group's actual financial position. Furthermore, such information does not purport to predict the future financial position of the ECM Group.

This letter is required by and is given for the purpose of complying with the Main Market Listing Requirements of Bursa Securities (the "Listing Requirements") in conjunction with the Proposals and should not be relied on for any other purpose.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

**Responsibilities**

It is solely the responsibility of the Board of Directors ("Board") of ECM to prepare the unaudited proforma consolidated statements of financial position on the basis described in the notes to the unaudited proforma consolidated statements of financial position, for illustrative purposes only, in accordance with the Listing Requirements.

It is our responsibility to form an opinion, as to the proper preparation of the unaudited proforma consolidated statements of financial position and to report that opinion to you.

In providing this opinion, we are not responsible in updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the unaudited proforma consolidated statements of financial position, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000 - Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consists primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited proforma consolidated statements of financial position with the Board and responsible officers of ECM.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the unaudited proforma consolidated statements of financial position have been properly prepared on the basis stated using financial statements prepared in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, and in a manner consistent with both the format of the consolidated statement of financial position and the accounting policies of ECM. Our work also involves assessing whether each material adjustment made to the information used in the preparation of the unaudited proforma consolidated statements of financial position is appropriate for the purposes of preparing the unaudited proforma consolidated statements of financial position.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

**Opinion**

In our opinion:-

- (a) The unaudited proforma consolidated statements of financial position of ECM Group as at 31 January 2012, which have been prepared by the Board of ECM have been properly prepared on the basis stated in the accompanying notes to the unaudited proforma consolidated statements of financial position using financial statements prepared in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, and in a manner consistent with both the format of the consolidated statement of financial position and the accounting policies adopted by ECM; and
- (b) Each adjustment made to the information used in the preparation of the unaudited proforma consolidated statements of financial position is appropriate for the purposes of preparing the unaudited proforma consolidated statements of financial position.

The unaudited proforma consolidated statements of financial position of ECM Group as at 31 January 2012 have been prepared based on the following key assumptions as described in Appendix I, for which the Board of ECM are solely responsible:

- the fair value of redeemable unsecured loan stocks is assumed to be equivalent to its nominal value, i.e. at RM1 for each redeemable unsecured loan stocks;
- the fair value of K&N Shares is assumed to be at RM0.685 per share, i.e. the quoted price from Bursa Securities as at 31 January 2012, the assumed date of completion of the Proposals;
- certain loans due from borrowers of ECMIB identified in the Retained Assets are assumed to be fully repaid before the completion date of the Proposals;
- a term loan due from a borrower of ECMIB referred to in the share purchase agreement in relation to the Proposed Disposal entered into between ECM, KIBB and K&N dated 15 June 2012 ("Share Purchase Agreement") is assumed to be fully recoverable. In the event of the loan due from the borrower is not fully recovered, the proceeds from redemption of Series B of the RULS of RM47.75 million (which is part of the RULS as part of the sale consideration in the Proposed Disposal stated above) will be offset against the loan amount not recoverable;
- the sale consideration from the Proposed Disposal is assumed to be received by the entitlement date of capital restructuring.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



- the value of K&N Shares for distribution-in-specie to entitled shareholders for capital repayment purpose is assumed to be based on the quoted price as at 31 January 2012. It should be noted that the actual value of K&N Shares for the purpose of the distribution is to be determined based on quoted price from Bursa Securities on the completion date of the Share Purchase Agreement.
- the number of outstanding ESOS options is assumed to be 72,512,000 units based on position as at 11 June 2012.

Other matters

This report has been prepared for inclusion in the circular, for the purpose of complying with the Listing Requirements, and should not be relied on for other purpose. Our work has been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this report is not appropriate in other jurisdictions and should not be used or relied upon for any purposes other than the Proposals described above. We accept no duty or responsibility and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any type of transaction, including the sale of securities other than the Proposals.

A stylized signature of an Ernst & Young representative.

Ernst & Young
AF: 0039
Chartered Accountants

A handwritten signature of Chan Hooi Lam.

Chan Hooi Lam
No 2844/02/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia

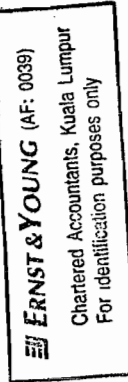
APPENDIX III

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I

ECM LIBRA FINANCIAL GROUP BERHAD
UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012
MINIMUM SCENARIO

	Audited as at 31 January 2012 RM'000	Adjustments RM'000	Proforma I(a) Assume none of the ESOS options is exercised RM'000	Adjustments RM'000	Proforma II(a) After Proforma I(a) and after payment of final dividend by ECM RM'000	Adjustments RM'000	Proforma III(a) After Proforma II(a) and Proposed Disposal of ECMIB Group and Purchase of Retained Assets RM'000	Adjustments RM'000	Proforma IV(a) After Proforma III(a) and Capital Restructuring, with distribution of RULS (Series A) RM'000	Adjustments RM'000	Proforma IV(a)-I After Proforma III(a) and Capital Restructuring, without distribution of RULS (Series A) RM'000
Assets											
Non current assets											
Cash and short term funds	431,197	-	431,197	(19,892)	411,305	86,572	497,877	(442,647)	55,230	-	55,230
Securities held-for-trading	360,985	-	360,985	-	360,985	(360,985)	-	-	-	-	-
Securities available-for-sale	675,033	-	675,033	-	675,033	(404,951)	270,082	(82,200)	187,882	-	187,882
Securities held-to-maturity	200,000	-	200,000	-	200,000	(104,500)	95,500	(47,750)	47,750	47,750	95,500
Derivative financial assets	6,688	-	6,688	-	6,688	(58)	6,630	-	6,630	-	6,630
Loans, advances and financing	550,242	-	550,242	-	550,242	(550,242)	-	-	-	-	-
Trade receivables	363,500	-	363,500	-	363,500	(360,809)	2,691	-	2,691	-	2,691
Other assets	29,443	-	29,443	-	29,443	(26,667)	2,776	-	2,776	-	2,776
Statutory deposit with Bank Negara Malaysia	27,165	-	27,165	-	27,165	(27,165)	-	-	-	-	-
Investment in associated company	19,976	-	19,976	-	19,976	-	19,976	-	19,976	-	19,976
Deferred tax assets	735	-	735	-	735	-	735	-	735	-	735
Property, plant and equipment	44,916	-	44,916	-	44,916	(21,714)	23,202	-	23,202	-	23,202
Intangible assets	284,500	-	284,500	-	284,500	(284,500)	-	-	-	-	-
Total assets	2,994,380		2,994,380		2,974,488		919,469		346,872		394,622



OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I

**ECM LIBRA FINANCIAL GROUP BERHAD
UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 (CONTD.)
MINIMUM SCENARIO**

	Proforma I(a)	Proforma II(a)	Proforma III(a)	Proforma IV(a)	Proforma IV(a)-I
	Assume none of the ESOS options is exercised	After Proforma I(a) and after payment of final dividend by ECM	After Proforma II(a) and Proposed Disposal of EC-MIB Group and Purchase of Retained Assets	After Proforma III(a) and Capital Restructuring, with distribution of RULS (Series A)	After Proforma III(a) and Capital Restructuring, without distribution of RULS (Series A)
	Adjustments RM'000	Adjustments RM'000	Adjustments RM'000	Adjustments RM'000	Adjustments RM'000
Audited as at 31 January 2012 RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Equity and liabilities					
Equity attributable to shareholders of the Company					
Share capital	830,902	830,902	830,902	256,222	303,972
Retained profits	59,307	39,415	72,090	72,090	72,090
AFS revaluation reserves	20,331	20,331	12,807	12,807	12,807
Equity compensation reserve	3,122	3,122	2,910	2,910	2,910
Statutory reserve	80,787	80,787	(80,787)	-	-
Merger reserves	26,561	26,561	(26,561)	-	-
Exchange reserves	(3,293)	(3,293)	(3,293)	(3,293)	(3,293)
General reserves	159	159	159	159	159
Capital reserves	-	-	-	504	504
Less: Treasury shares, at cost	(1,579)	(1,579)	(1,579)	-	-
Total equity	1,016,297	996,405	913,996	341,399	389,149
Liabilities					
Deposits from customers and placements of banks and other financial institutions	1,081,483	1,081,483	(1,081,483)	-	-
Derivative financial liabilities	341,371	341,371	(341,371)	-	-
Trade payables	57	57	(57)	-	-
Other liabilities	482,959	482,959	(482,878)	81	81
Provision for taxation	61,299	61,299	(56,521)	4,778	4,778
Deferred tax liabilities	2,873	2,873	(2,830)	43	43
	8,041	8,041	(7,470)	571	571
Total liabilities	1,978,083	1,978,083	5,473	5,473	5,473
Total equity and liabilities	2,994,380	2,974,488	919,469	346,872	394,622



ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

APPENDIX III

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I

ECM LIBRA FINANCIAL GROUP BERHAD
UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 (CONTD.)
MINIMUM SCENARIO

	Proforma I(a)		Proforma II(a)		Proforma III(a)		Proforma IV(a)		Proforma IV(a)-I		
	Audited as at 31 January 2012	Adjustments	Assume none of the ESOS options is exercised	Adjustments	After Proforma I(a) and after payment of final dividend by ECM	Adjustments	After Proforma II(a) and Proposed Disposal of ECMIB Group and Purchase of Retained Assets	Adjustments	After Proforma III(a) and Capital Restructuring, with distribution of RULS (Series A)	Adjustments	After Proforma III(a) and Capital Restructuring, with distribution of RULS (Series A)
Number of ECM shares in issue ('000)	830,902	-	830,902	-	830,902	(574,680)	830,902	47,750	830,902	303,972	303,972
Less: Treasury shares	(2,083)	-	(2,083)	-	(2,083)	2,083	(2,083)	-	-	-	-
Number of ECM shares in issue, net of Treasury shares ('000)	828,819	-	828,819	-	828,819	-	828,819	-	256,222	303,972	303,972
Net assets per ECM share attributable to equity holders of ECM (RM)	1.23	-	1.23	-	1.20	-	1.10	-	1.33	1.28	1.28
Net tangible assets per ECM share attributable to equity holders of ECM (RM)	0.88	-	0.88	-	0.86	-	1.10	-	1.33	1.28	1.28

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
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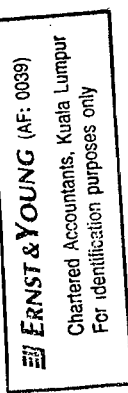
APPENDIX III

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I

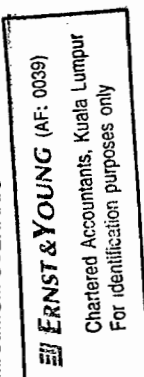
ECM LIBRA FINANCIAL GROUP BERHAD
UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012
MAXIMUM SCENARIO

	Proforma I(b)		Proforma II(b)		Proforma III(b)		Proforma IV(b)		Proforma IV(b)-I		
	Audited as at 31 January 2012 RM'000	Adjustments RM'000	Assume all ESOS options are exercised RM'000	Adjustments RM'000	After Proforma I(b) and after payment of final dividend by ECM RM'000	Adjustments RM'000	After Proforma II(b) and Proposed Disposal of ECMIB Group and Purchase of Retained Assets RM'000	Adjustments RM'000	After Proforma III(b) Restructuring, with distribution of RULS (Series A) RM'000	Adjustments RM'000	After Proforma IV(b) Restructuring, without distribution of RULS (Series A) RM'000
Assets											
Non current assets											
Cash and short term funds	431,197	72,512	503,709	(21,632)	482,077	86,572	568,649	(442,647)	126,002	-	126,002
Securities held-for-trading	360,985	-	360,985	-	360,985	(360,985)	-	-	-	-	-
Securities available-for-sale	675,033	-	675,033	-	675,033	(404,951)	270,082	(82,200)	187,882	-	187,882
Securities held-to-maturity	200,000	-	200,000	-	200,000	(104,500)	95,500	(47,750)	47,750	47,750	95,500
Derivative financial assets	6,688	-	6,688	-	6,688	(58)	6,630	-	6,630	-	6,630
Loans, advances and financing	550,242	-	550,242	-	550,242	(550,242)	-	-	-	-	-
Trade receivables	363,500	-	363,500	-	363,500	(360,809)	2,691	-	2,691	-	2,691
Other assets	29,443	-	29,443	-	29,443	(26,667)	2,776	-	2,776	-	2,776
Statutory deposit with Bank Negara Malaysia	27,165	-	27,165	-	27,165	(27,165)	-	-	-	-	-
Investment in associated company	19,976	-	19,976	-	19,976	-	19,976	-	19,976	-	19,976
Deferred tax assets	735	-	735	-	735	-	735	-	735	-	735
Property, plant and equipment	44,916	-	44,916	-	44,916	(21,714)	23,202	-	23,202	-	23,202
Intangible assets	284,500	-	284,500	-	284,500	(284,500)	-	-	-	-	-
Total assets	2,994,380		3,066,892		3,045,260		990,241		417,644		465,394



OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

ECM LIBRA FINANCIAL GROUP BERHAD
 UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 (CONTD.)
 MAXIMUM SCENARIO



	Proforma (lb)		Proforma II(b)		Proforma III(b)		Proforma IV(b)		Proforma IV(b)-I	
	Audited as at 31 January 2012 RM'000	Assume all ESOS options are exercised RM'000	Adjustments RM'000	After Proforma I(b) and after payment of final dividend by ECM RM'000	Adjustments RM'000	After Proforma II(b) and Proposed Disposal of ECMIB Group and Purchase of Retained Assets RM'000	Adjustments RM'000	After Proforma III(b) and Capital Restructuring, with distribution of RULS (Series A) RM'000	Adjustments RM'000	After Proforma III(b) and Capital Restructuring, without distribution of RULS (Series A) RM'000
Equity and liabilities										
Equity attributable to shareholders of the Company										
Share capital	830,902	903,414	-	903,414	-	903,414	(574,680)	328,734	47,750	376,484
Retained profits	59,307	62,429	(21,632)	40,797	32,463	73,260	-	73,260	-	73,260
AFS revaluation reserves	20,331	20,331	-	20,331	(7,524)	12,807	-	12,807	-	12,807
Equity compensation reserve	3,122	-	(3,122)	-	-	-	-	-	-	-
Statutory reserve	80,787	80,787	-	80,787	(80,787)	-	-	-	-	-
Merger reserves	26,561	26,561	-	26,561	(26,561)	-	-	-	-	-
Exchange reserves	(3,293)	(3,293)	-	(3,293)	-	(3,293)	-	(3,293)	-	(3,293)
General reserves	159	159	-	159	-	159	-	159	-	159
Capital reserves	-	-	-	-	-	-	504	504	-	504
Less: Treasury shares, at cost	(1,579)	(1,579)	-	(1,579)	-	(1,579)	1,579	-	-	-
Total equity	1,016,297	1,088,809		1,067,177		984,768		412,171		459,921
Liabilities										
Deposits from customers	1,081,483	1,081,483	-	1,081,483	(1,081,483)	-	-	-	-	-
Deposits and placements of banks and other financial institutions	341,371	341,371	-	341,371	(341,371)	-	-	-	-	-
Derivative financial liabilities	57	57	-	57	(57)	-	-	-	-	-
Trade payables	482,959	482,959	-	482,959	(482,878)	81	-	81	-	81
Other liabilities	61,299	61,299	-	61,299	(56,521)	4,778	-	4,778	-	4,778
Provision for taxation	2,873	2,873	-	2,873	(2,830)	43	-	43	-	43
Deferred tax liabilities	8,041	8,041	-	8,041	(7,470)	571	-	571	-	571
Total liabilities	1,978,083	1,978,083		1,978,083		5,473		5,473		5,473
Total equity and liabilities	2,994,380	3,066,892		3,045,260		990,241		417,644		465,394

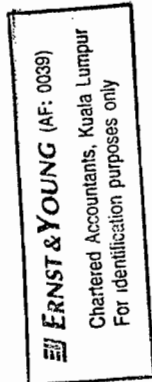
APPENDIX III

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I

ECM LIBRA FINANCIAL GROUP BERHAD
UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 (CONTD.)
MAXIMUM SCENARIO

	Proforma I(b)		Proforma II(b)		Proforma III(b)		Proforma IV(b)		Proforma IV(b)-I		
	Adjusted as at 31 January 2012	Adjustments	Assume all ESOS options are exercised	Adjustments	After Proforma II(b) and after payment of final dividend by ECM	Adjustments	After Proforma II(b) and Proposed Disposal of ECMIB Group and Purchase of Retained Assets	Adjustments	After Proforma III(b) and Capital Restructuring, with distribution of RULS (Series A)	Adjustments	After Proforma III(b) and Capital Restructuring, without distribution of RULS (Series A)
Number of ECM shares in issue ('000)	830,902	72,512	903,414	-	903,414	(574,680)	903,414	47,750	328,734	47,750	376,484
Less: Treasury shares	(2,083)	-	(2,083)	-	(2,083)	2,083	(2,083)	-	-	-	-
Number of ECM shares in issue, net of Treasury shares ('000)	828,819		901,331		901,331		901,331		328,734		376,484
Net assets per ECM share attributable to equity holders of ECM (RM)	1.23	-	1.21	-	1.18	-	1.09	-	1.25	-	1.22
Net tangible assets per ECM share attributable to equity holders of ECM (RM)	0.88	-	0.89	-	0.87	-	1.09	-	1.25	-	1.22



OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)
**ECM LIBRA FINANCIAL GROUP BERHAD ("ECM" or "THE COMPANY")
 NOTES TO UNAUDITED PROFORMA CONSOLIDATED STATEMENTS OF
 FINANCIAL POSITION AS AT 31 JANUARY 2012**
BASIS OF PREPARATION

The Unaudited Proforma Consolidated Statements of Financial Position of ECM as at 31 January 2012 have been prepared for illustrative purposes, in connection with the following proposals:

- (i) Proposed disposal of 100% equity interest in ECM Libra Investment Bank Berhad ("ECMIB") to Kenanga Investment Bank Berhad for a total disposal consideration of RM875,114,000 (subject to post-closing adjustment) ("Proposed Disposal").

The sale consideration is to be satisfied via the following:

- Cash of RM659,614,000.
 - Issuance of redeemable non-convertible unsecured loan stocks by K&N Kenanga Holdings Berhad ("K&N") of RM95,500,000; and
 - Issuance of 120,000,000 new ordinary shares of RM1 each of K&N ("K&N Shares").
- (ii) Proposed purchase of securities and other investments and loan portfolios (collectively known as "Retained Assets") by ECM from ECMIB for cash.

The purchase consideration of the securities and other investments shall be based on "marked-to-market value" for those shares traded on Bursa Malaysia Securities Berhad ("Bursa Securities") or for those not traded on Bursa Securities, at fair value ("Proposed Retained Assets").

- (iii) Proposed capital restructuring comprising the following:
- Proposed capital repayment to ECM's entitled shareholders comprising a total of RM442,647,000 in cash, 120,000,000 K&N Shares and RM47,750,000 nominal value of redeemable unsecured loan stocks issued by K&N (Series A), via a reduction of the par value of the ordinary shares of RM1.00 each in ECM by an amount to be determined ("Proposed Capital Repayment");
 - Proposed share split involving the subdivision of the ordinary shares of ECM after the Proposed Capital Repayment ("Proposed Share Split"); and

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)**BASIS OF PREPARATION (CONT'D.)**

- Proposed consolidation of the required number of ordinary shares in ECM after the Proposed Share Split into one ordinary share of RM1.00 each in ECM.

(Collectively known as the "Proposals")

It should be noted that the unaudited proforma consolidated statements of financial position exclude any payment in lieu of notice that needs to be made to the non-executive employees under the Business Merger Agreement and other provisions required to be made by ECM.

The Unaudited Proforma Consolidated Statements of Financial Position of ECM as at 31 January 2012, for which the directors are solely responsible, have been prepared based on the audited consolidated statement of financial position of ECM as at 31 January 2012, and on a basis consistent with both the format of the financial statements and the accounting policies adopted by ECM in the preparation of the audited consolidated financial statements of ECM for the financial year ended 31 January 2012, which is in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, to show the effects on the Consolidated Statement of Financial Position of ECM Group as at 31 January 2012, had the Proposals been implemented and completed on that date after taking into account the following:

Minimum scenario:

Assume none of the 72,512,000 ESOS options outstanding as at 11 June 2012 are exercised prior to the Proposals.

Maximum scenario:

Assume all the 72,512,000 ESOS options outstanding as at 11 June 2012 are exercised prior to the Proposals.

1. Proforma I - ESOS

Minimum scenario

Proforma I(a) under the minimum scenario assumed that none of the 72,512,000 ESOS options outstanding as at 11 June 2012 are exercised prior to the Proposals.

Maximum scenario

Proforma I(b) under the maximum scenario assumed that all the 72,512,000 ESOS options outstanding as at 11 June 2012 are exercised prior to the Proposals.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (*Cont'd*)

APPENDIX I (CONT'D.)

BASIS OF PREPARATION (CONT'D.)

2. Proforma II- Payment of final dividend by ECM

Minimum scenario

Proforma II(a) incorporates the effects of Proforma I(a) and the payment of final dividend for the financial year ended 31 January 2012 of RM19,892,000 to ECM's shareholders.

Maximum scenario

Proforma II(b) incorporates the effects of Proforma I(b) and the payment of final dividend for the financial year ended 31 January 2012 of RM21,632,000 to ECM's shareholders.

The additional ordinary shares issued from the exercise of ESOS in proforma I(b) are assumed to be entitled to the final dividend for the financial year ended 31 January 2012 which amounts to RM1,740,000.

3. Proforma III - Proposed Disposal of ECMIB Group and Purchase of Retained Assets

Minimum and maximum scenarios

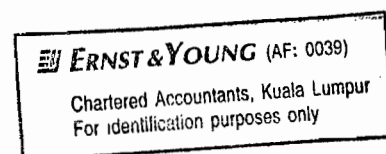
Proforma III incorporates the effects of Proforma II and the effects of:

- the disposal of 100% equity interest in ECMIB to K&N for a sale consideration of RM875,114,000 (subject to post-closing adjustments).

For illustrative purposes only, the computation of the disposal of ECMIB Group is based on the audited financial statements of ECMIB Group as at 31 January 2012.

The sale consideration is to be satisfied via the following:

- Cash of RM659,614,000;
- Issuance of redeemable non-convertible unsecured loan stocks ("RULS") by K&N of RM95,500,000; and
- Issuance of 120,000,000 K&N Shares.
- The actual sale consideration is to be further adjusted to take into account the changes in the NTA and the loan loss reserve between 31 January 2012 and the closing date. Thus, the actual sale consideration may differ from the sale consideration used in the unaudited proforma consolidated statements of financial position.



OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)

BASIS OF PREPARATION (CONT'D.)

3. Proforma III - Proposed Disposal of ECMIB Group and Purchase of Retained Assets (Cont'd.)

- the purchase of certain securities and other investments and loan portfolios ("Retained Assets") from ECMIB for a cash consideration equivalent to:
 - Quoted securities and other investments - the "marked-to-market value" based on quoted price from the Bursa Securities; and
 - Non-quoted securities and other investments - to be based on fair value.

For the purpose of this unaudited proforma consolidated statements of financial position:

- the fair value of RULS is assumed to be equivalent to its nominal value, i.e. at RM1 for each RULS;
- the fair value of K&N Shares is assumed to be at RM0.685 per share, i.e. the quoted price from Bursa Malaysia Securities Berhad as at 31 January 2012, the assumed date of completion of the Proposals;
- certain loans due from borrowers of ECMIB identified in the Retained Assets are assumed to be fully repaid before the completion date of the Proposals;
- a term loan due from a borrower of ECMIB referred to in the share purchase agreement in relation to the Proposed Disposal entered into between ECM, KIBB and K&N dated 15 June 2012 ("Share Purchase Agreement") is assumed to be fully recoverable. In the event of the loan due from the borrower is not fully recovered, the proceeds from redemption of Series B of the RULS of RM47.75 million (which is part of the RULS as part of the sale consideration in the Proposed Disposal stated above) will be offset against the loan amount not recoverable.
- the fair value of the securities and other investments identified in the Retained Assets has been assumed, based on the fair values as at 31 January 2012, to be as follows:

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)**BASIS OF PREPARATION (CONT'D.)****3. Proforma III - Proposed Disposal of ECMIB Group and Purchase of Retained Assets (Cont'd.)**

	RM'000
Quoted securities and other investments	120,258
Unquoted securities and other investments	65,954
Derivative - unquoted	<u>6,630</u>
Total fair value of Retained Assets	<u>192,842</u>

The Retained Assets are designated as follows upon acquisition from ECMIB Group:

	RM'000
Securities available-for-sale	186,212
Derivative financial assets	<u>6,630</u>
Total fair value of Retained Assets	<u>192,842</u>

It should be noted that the actual fair values as at the date of Proposed Disposal or the Proposed Purchase of Retained Assets may differ from those used in the unaudited proforma consolidated statements of financial position.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)

BASIS OF PREPARATION (CONT'D.)

3. Proforma III - Proposed Disposal of ECMIB Group and Purchase of Retained Assets (Cont'd.)

The impact to retained profits is as follows:

	Minimum scenario RM'000	Maximum scenario RM'000
Retained profits of ECM Group based on audited financial statement as at 31 January 2012	59,307	59,307
Reclassification of equity compensation reserve	-	3,122
Retained profits per Proforma I(a) and I(b), respectively	59,307	62,429
Final dividend paid to shareholders of ECM Group	(19,892)	(21,632)
Retained profits per Proforma II(a) and II(b), respectively	39,415	40,797
Loss on the Proposed Disposal	(55,848)	(55,848)
Realisation of AFS reserve	7,524	7,524
Reclassification of equity compensation reserve	212	-
Reclassification of statutory reserve	80,787	80,787
	32,675	32,463
Retained profits per Proforma III(a) and III(b), respectively	72,090	73,260

APPENDIX I (CONT'D.)**BASIS OF PREPARATION (CONT'D.)****4. Proforma IV - Proposed Capital Restructuring (with distribution of RULS (Series A))***Minimum and maximum scenarios*

Proforma IV incorporates the effects of Proforma III and the effects of cancellation of 2,082,862 treasury shares held by ECM as at 31 January 2012 and capital repayment to ECM's entitled shareholders. The proposed share split and proposed share consolidation would have no financial impact on this Proforma. The proposed capital repayment will be funded entirely by the sale consideration received from the Proposed Disposal.

The proposed capital repayment is to be effected as follows:

- a cash distribution amounting to RM442,647,000;
- distribution-in-specie of 120,000,000 K&N Shares; and
- distribution-in-specie of RM47,750,000 nominal value of RULS issued by K&N.

The value of K&N Shares for distribution-in-specie to entitled shareholders for capital repayment purpose is assumed to be based on the quoted price as at 31 January 2012. It should be noted that the actual value of K&N Shares for the purpose of the distribution is to be determined based on quoted price from Bursa Securities on the completion date of the Share Purchase Agreement.

For the purpose of the proforma, it is assumed that the sale consideration from the Proposed Disposal has been received by the entitlement date.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)**BASIS OF PREPARATION (CONT'D.)****4. Proforma IV - Proposed Capital Restructuring (with distribution of RULS (Series A)) (cont'd.)**

The impact to share capital is as follows:

	Minimum scenario RM'000	Maximum scenario RM'000
Share capital of ECM Group based on audited financial statement as at 31 January 2012	830,902	830,902
Exercise of ESOS	-	72,512
Share capital per Proforma I(a) to III(a) and I(b) to III(b), respectively	830,902	903,414
Cancellation of treasury shares	(2,083)	(2,083)
Cash distribution	(442,647)	(442,647)
Distribution-in-specie of K&N shares	(82,200)	(82,200)
Distribution-in-specie of RULS issued by K&N	(47,750)	(47,750)
	(574,680)	(574,680)
Share capital per Proforma IV(a) and IV(b)	256,222	328,734

In determining the shareholders' entitlement to the K&N shares, fractional entitlements, if any, will be disregarded and shall be dealt with in such manner as the Board of Directors of ECM shall in its absolute discretion deems fit and expedient in order to minimise the incidence of odd lots, and in the interest of the Company.

OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

APPENDIX I (CONT'D.)**BASIS OF PREPARATION (CONT'D.)****5. Proforma IV-I - Proposed Capital Restructuring (without distribution of RULS (Series A))**

Proforma IV-I incorporates the effects of Proforma III and the effects of capital repayment to ECM's entitled shareholders, without the distribution-in-specie of RM47,750,000 nominal value of RULS issued by K&N (Series A).

The impact to share capital, without the distribution of RULS (Series A), is as follows:

	Minimum scenario RM'000	Maximum scenario RM'000
Share capital per Proforma IV(a) and IV(b)	256,222	328,734
Add: Non-Distribution-in-specie of RULS issued by K&N (Series A)	<u>47,750</u>	<u>47,750</u>
Share capital per Proforma IV(a)-I and IV(b)-I	<u>303,972</u>	<u>376,484</u>

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board who, individually and collectively, accepts full responsibility for the accuracy of the information given in this Circular (save for information relating to the KNKH Group) and confirms that, after making all reasonable enquiries and to the best of the Board's knowledge and belief, there are no other facts, the omission of which would make any statement herein false or misleading.

All information relating to the KNKH Group are extracted from publicly available information and/or provided by the management of KNKH. Therefore, the responsibility of the Board is restricted to ensuring that such information is accurately reproduced in this Circular.

2. CONSENTS AND CONFLICT OF INTEREST

- (i) ECMLIB has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which it appears in this Circular.

ECMLIB has been appointed as the Principal Adviser to prepare all the necessary documentation, including the Circular. Essentially, ECMLIB's role as the Principal Adviser is to facilitate the preparation of the documentation, and to procure the requisite approvals from regulators and the shareholders of ECMLFG. In addition, Affin Investment has been appointed as the Independent Adviser to provide an independent opinion on whether the Proposed Disposal and Proposed Capital Repayment are fair and reasonable, and are not to the detriment of the minority shareholders of ECMLFG.

Save as disclosed above, ECMLIB is not aware of any conflict of interest which exists or is likely to exist in its capacity as a Principal Adviser for the Proposals.

- (ii) EY, has given and has not subsequently withdrawn its written consent for the inclusion of its name and its letter on the proforma consolidated statements of financial position of ECMLFG as at 31 January 2012 in the form and context in which they appear in this Circular. As at the date of this Circular, EY has given its confirmation that it is not aware of any circumstances or relationships that exist or are likely to give rise to a conflict of interest in its capacity as the Reporting Accountants for the Proposals.
- (iii) Affin Investment has given and has not subsequently withdrawn its written consent for the inclusion of its name and the IAL in the form and context in which they appear in this Circular. As at the date of this Circular, Affin Investment has given its confirmation that it is not aware of any circumstances or relationships that exist or are likely to give rise to a conflict of interest in its capacity as the Independent Adviser for the Proposed Disposal and Proposed Capital Repayment.
- (iv) EY, the auditors of ECMLIB and KNKH, has given and has not subsequently withdrawn its written consent for the inclusion of their name and report relating to the audited consolidated financial statements of ECMLIB for the FYE 31 January 2012 and KNKH for the FYE 31 December 2011, and all references thereto in the form and context in which they appear in this Circular.

FURTHER INFORMATION (Cont'd)

3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, the Board is not aware of any material commitments and contingent liabilities incurred or known to be incurred by the ECMLFG Group (excluding the ECMLIB Group).

4. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company during normal business hours from Mondays to Fridays (except public holidays) from the date of this Circular up to and including the date of the forthcoming EGM:

- (i) the Memorandum and Articles of Association of ECMLFG, ECMLIB and KNKH;
- (ii) the audited consolidated financial statements of ECMLFG for the past two (2) FYE 31 January 2012 and the latest unaudited consolidated financial results of ECMLFG for the three (3) months financial period ended 30 April 2012;
- (iii) the audited consolidated financial statements of ECMLIB for the past two (2) FYE 31 January 2012;
- (iv) the audited financial statements of KNKH for the past two (2) FYE 31 December 2011 and the latest unaudited consolidated financial results of KNKH for the three (3) months financial period ended 31 March 2012;
- (v) the SPA and BMA dated 15 June 2012;
- (vi) the material contracts referred to in section 8 of Appendix II;
- (vii) the relevant cause papers in respect of the material litigation referred to in section 9 of Appendices I and II;
- (viii) the Proforma Consolidated Statements of Financial Position of ECMLFG as at 31 January 2012 and the Reporting Accountants' letter thereto as set out in Appendix III of this Circular; and
- (ix) the letters of consent and conflict of interest referred to in section 2 of this Appendix.

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ECM Libra Financial Group Berhad (713570-K)
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of ECM Libra Financial Group Berhad ("**Company**") will be held at Ground Floor, East Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur on Tuesday, 31 July 2012 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 7th Annual General Meeting of the Company to be held at the same venue and on the same day at 10.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTION 1

PROPOSED DISPOSAL OF THE ENTIRE ISSUED AND PAID UP SHARE CAPITAL OF ECM LIBRA INVESTMENT BANK BERHAD ("ECMLIB") TO KENANGA INVESTMENT BANK BERHAD ("KIBB") FOR AN AGGREGATE CONSIDERATION OF RM875,114,000 (SUBJECT TO POST-CLOSING ADJUSTMENT)

"THAT subject to the passing of Special Resolution 2 and the approvals from the relevant regulatory authorities being obtained, approval be and is hereby given for the Company to dispose of the entire issued and paid-up share capital in ECMLIB (including any bonus issue by ECMLIB, where required, to increase its paid-up share capital to undertake and implement the proposed capital reduction of ECMLIB ("**Proposed Capital Reduction of ECMLIB**") which as at the date of the share purchase agreement dated 15 June 2012 entered into between the Company, KIBB and K & N Kenanga Holdings Berhad ("**KNKH**") ("**SPA**"), comprises 513,000,000 ordinary shares of RM1.00 each, to KIBB for an aggregate consideration of RM875,114,000 (subject to post-closing adjustment) ("**Proposed Disposal**") to be fully satisfied in the following manner:

- (i) Cash sum of RM659,614,000 (subject to post-closing adjustment) payable by KIBB;
- (ii) Issuance of RM95,500,000 nominal value of redeemable non-convertible unsecured loan stocks ("**RULS**") by KNKH; and
- (iii) Issuance of 120,000,000 new ordinary shares of RM1.00 each in KNKH ("**KNKH Shares**") at an issue price of RM1.00 per share,

subject to the conditions and upon the terms set out in the SPA;

AND THAT the SPA, all transactions contemplated under the SPA and all agreements, undertakings and documents executed pursuant to the SPA, including, without limitation:

- (i) the Proposed Capital Reduction of ECMLIB; and
- (ii) the purchase by the Company or any of its subsidiaries from ECMLIB of certain retained assets identified by the parties to the SPA, comprising securities and other investments ("**Retained Assets**"), and the execution of the sale and purchase agreement in respect of the Retained Assets,

be and are hereby approved, confirmed and ratified;

AND THAT the Directors of the Company be and are hereby authorised to take all such steps, execute such documents and enter into any arrangements, agreements and/or undertakings with any party or parties as it may deem fit, necessary, expedient and/or appropriate in order to implement, finalise and/or give effect to the Proposed Disposal with full powers to assent to any terms, conditions, modifications, variations and/or amendments as may be agreed to or required by the relevant regulatory authorities or as a consequence of any such requirement or as the Directors may in their absolute discretion deem necessary and/or expedient to implement, finalise and/or give effect to the Proposed Disposal."

SPECIAL RESOLUTION 2

PROPOSED MERGER OF THE BUSINESSES OF KIBB AND ECMLIB

“THAT subject to the passing of Special Resolution 1 and the approvals from the relevant regulatory authorities being obtained, approval be and is hereby given to ECMLIB to merge its business with that of KIBB by way of a sale and transfer of the entire business of ECMLIB as a going concern (including substantially all ECMLIB’s assets and liabilities) to KIBB (**“Proposed Business Merger”**) by way of a vesting order to be obtained from the High Court in Malaysia in accordance with the Banking and Financial Institutions Act 1989 and the Capital Markets and Services Act 2007, for a disposal consideration of RM875,114,000 (subject to post-closing adjustment), subject to the conditions and upon the terms set out in the business merger agreement dated 15 June 2012 entered into between KIBB and ECMLIB (**“BMA”**);

AND THAT the BMA, all transactions contemplated under the BMA and all agreements, undertakings and documents executed pursuant to the BMA be and are hereby approved, confirmed and ratified;

AND THAT the Directors of the Company be and are hereby authorised to take all such steps, execute such documents and enter into any arrangements, agreements and/or undertakings with any party or parties as it may deem fit, necessary, expedient and/or appropriate in order to implement, finalise and/or give effect to the Proposed Business Merger with full powers to assent to any terms, conditions, modifications, variations and/or amendments as may be agreed to or as may be required by the relevant regulatory authorities or as a consequence of any such requirement or as the Directors may in their absolute discretion deem necessary and/or expedient to implement, finalise and/or give effect to the Proposed Business Merger.”

SPECIAL RESOLUTION 3

PROPOSED CAPITAL RESTRUCTURING

“THAT subject to the passing of Special Resolution 1 and Special Resolution 2, the completion of the Proposed Disposal and the Proposed Business Merger, and the approvals from the relevant regulatory authorities, including the confirmation by the High Court in Malaysia pursuant to Section 64 of the Companies Act, 1965, and/or third parties including creditors or lenders (where necessary) being obtained, approval be and is hereby given for the Company to restructure its issued and paid-up share capital to be effected in the following manner:

- (1) capital repayment comprising:
 - (i) cash distribution of RM442,647,000;
 - (ii) subject to the approval of the Securities Commission (**“SC”**) and such other relevant regulatory authorities, the distribution-in-specie of 120,000,000 new KNKH Shares; and
 - (iii) subject to the approval of the SC and such other relevant regulatory authorities for the issuance and transfer of the RULS, the distribution-in-specie of RM47,750,000 in nominal value of the RULS,

to the members of the Company whose name appears in the Record of Depositors on a date to be determined and announced by the Directors in their absolute discretion on a pro-rata basis based on the issued and paid-up share capital of the Company (excluding the ordinary shares of RM1.00 each in the Company held as treasury shares), such capital repayment to be effected via a reduction of the par value of the existing ordinary shares in the Company by an amount to be determined, in accordance with Section 64 of the Companies Act, 1965 (**“Proposed Capital Repayment”**);

- (2) share split involving the subdivision of the ordinary shares in the Company after the Proposed Capital Repayment, to facilitate the Proposed Share Consolidation (**“Proposed Share Split”**); and

- (3) share consolidation of the ordinary shares in the Company after the Proposed Share Split resulting in the Company having a reduced issued and paid-up share capital comprising ordinary shares of RM1.00 each, taking into account the Proposed Capital Repayment ("**Proposed Share Consolidation**"),

(collectively referred to as "**Proposed Capital Restructuring**");

AND THAT authority be and is hereby given to the Directors of the Company to confirm:

- (i) the amount to be deducted or reduced from the par value of the ordinary shares in the Company under the Proposed Capital Repayment based on *inter-alia* the closing price of the KNKH Shares on the date of closing of the Proposed Disposal and the distribution of the RM47,750,000 in nominal value of the RULS; and
- (ii) the manner in which the Proposed Capital Repayment, the Proposed Share Split and the Proposed Share Consolidation shall be effected;

AND THAT the Directors of the Company be and are hereby authorised to take all such steps, execute such documents and enter into any arrangements, agreements and/or undertakings with any party or parties as they may deem fit, necessary, expedient and/or appropriate in order to implement, finalise and/or give effect to the Proposed Capital Restructuring with full powers to assent to any terms, conditions, modifications, variations and/or amendments as may be required or imposed by the SC, Bursa Malaysia Securities Berhad ("**Bursa Securities**") or any other relevant regulatory authorities or as a consequence of any such requirement or as the Directors may in their absolute discretion deem necessary and/or expedient, including dealing with fractional entitlements to minimise the incidence of odd lots in the Proposed Capital Repayment, Proposed Share Split and Proposed Share Consolidation, to implement, finalise and/or give effect to the Proposed Capital Restructuring and in the best interest of the Company."

By Order of the Board

IRENE LOW YUET CHUN
CHAN SOON LEE
Secretaries

Kuala Lumpur
9 July 2012

NOTES:

1. Pursuant to Paragraph 10.11A(1)(d) of the Main Market Listing Requirements of Bursa Securities, the resolutions on the Proposed Disposal and Proposed Business Merger must be approved by at least 75% in value of the members present and voting, either in person or by proxy, at the Extraordinary General Meeting of the Company.
2. Only a depositor whose name appears in the Record of Depositors of the Company as at 25 July 2012 shall be regarded as a member entitled to attend, speak and vote, and appoint a proxy to attend, speak and vote on his/her behalf, at the Extraordinary General Meeting.
3. A member entitled to attend and vote at the above meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. 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.
4. Where a member appoints more than one (1) proxy to attend the meeting, the member shall specify the proportion of his shareholdings to be represented by each proxy.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hand of a duly authorised officer or attorney of the corporation.
6. The Form of Proxy must be deposited at the Registered Office of the Company at 2nd Floor, West Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

ecmlibra

ECM Libra Financial Group Berhad (713570-K)
(Incorporated in Malaysia)

FORM OF PROXY

I/We _____ (NRIC No./Co. No.) _____

of _____ being a member/members

of ECM Libra Financial Group Berhad hereby appoint _____

(NRIC No.) _____ of _____

or failing him/her _____ (NRIC No.) _____

of _____
or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Ground Floor, East Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur on Tuesday, 31 July 2012 at 11.00 a.m. or immediately after the conclusion or adjournment, as the case may be, of the 7th Annual General Meeting to be held at the same venue and on the same day at 10.30 a.m., and at any adjournment thereof.

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

	RESOLUTIONS	FOR	AGAINST
1.	Special Resolution 1 – Proposed Disposal		
2.	Special Resolution 2 – Proposed Business Merger		
3.	Special Resolution 3 – Proposed Capital Restructuring		

Dated this _____ day of _____ 2012

Number of shares held	For appointment of two proxies, percentage of shareholdings to be represented by the proxies:	
	No. of shares	Percentage
	Proxy 1	
	Proxy 2	
	Total	100%

Signature(s) / Common Seal of Member(s)

Notes:

- Pursuant to Paragraph 10.11A(1)(d) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the resolutions on the Proposed Disposal and Proposed Business Merger must be approved by at least 75% in value of the members present and voting, either in person or by proxy, at the Extraordinary General Meeting of the Company.
- Only a depositor whose name appears in the Record of Depositors of the Company as at 25 July 2012 shall be regarded as a member entitled to attend, speak and vote, and appoint a proxy to attend, speak and vote on his/her behalf, at the Extraordinary General Meeting.
- A member entitled to attend and vote at the above meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. 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.
- Where a member appoints more than one (1) proxy to attend the meeting, the member shall specify the proportion of his shareholdings to be represented by each proxy.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hand of a duly authorised officer or attorney of the corporation.
- The Form of Proxy must be deposited at the Registered Office of the Company at 2nd Floor, West Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.



Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary
ECM LIBRA FINANCIAL GROUP BERHAD
2nd Floor, West Wing, Bangunan ECM Libra
8 Jalan Damansara Endah
Damansara Heights
50490 Kuala Lumpur

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