

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

The Notice of the Extraordinary General Meeting ("EGM") of ECM Libra Financial Group Berhad ("ECMLFG" or "Company") together with the Form of Proxy is enclosed in this Circular.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



ECM Libra Financial Group Berhad (713570-K)
(Incorporated in Malaysia)

Circular to shareholders in relation to

PART A

- (I) **Proposed disposal by ECMLFG of its 100% equity interest in ECM Libra Investment Bank Berhad ("ECMLIB") to Kenanga Investment Bank Berhad ("KIBB") for a total disposal consideration of RM875,114,000 (subject to post-closing adjustment) ("Proposed Disposal");**
- (II) **Proposed business merger of the businesses of ECMLIB and KIBB ("Proposed Business Merger"); and**
- (III) **Proposed capital restructuring comprising the following:**
 - (A) **Proposed capital repayment to the shareholders of ECMLFG comprising a total of RM442,647,000 in cash, 120,000,000 ordinary shares of RM1.00 each in K & N Kenanga Holdings Berhad ("KNKH") and RM47,750,000 nominal value of redeemable non-convertible unsecured loan stocks by KNKH ("RULS") (Series A) via a reduction of the par value of the existing ordinary shares of ECMLFG by an amount to be determined, in accordance with Section 64 of the Companies Act, 1965 ("Proposed Capital Repayment");**
 - (B) **Proposed share split involving the subdivision of the ordinary shares in ECMLFG after the Proposed Capital Repayment, to facilitate the Proposed Share Consolidation (as defined below) ("Proposed Share Split"); and**
 - (C) **Proposed consolidation of the ordinary shares in ECMLFG after the Proposed Share Split resulting in ECMLFG having a reduced issued and paid-up share capital comprising ordinary shares of RM1.00 each, taking into account the Proposed Disposal and the Proposed Capital Repayment ("Proposed Share Consolidation")**

(collectively referred to as the "Proposals")

PART B

Independent advice letter from Affin Investment Bank Berhad in relation to the Proposals

and Notice of Extraordinary General Meeting

Principal Adviser



ECM LIBRA INVESTMENT BANK BERHAD (682-X)

A Licensed Merchant Bank

A Participating Organisation of Bursa Malaysia Securities Berhad

Independent Adviser



AFFIN INVESTMENT BANK BERHAD (9999-V)

A Participating Organisation of Bursa Malaysia Securities Berhad

As a shareholder, you may appoint a proxy or proxies to attend and vote on your behalf. If you wish to do so, you must complete, sign and deposit the enclosed Form of Proxy at our registered office at 2nd Floor, West Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur not later than 48 hours before the time set for the meeting or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently decide to do so.

Last date and time for lodging the Form of Proxy : Sunday, 29 July 2012 at 11.00 a.m.

Date and time of the EGM : Tuesday, 31 July 2012 at 11.00 a.m., or immediately after the conclusion or adjournment (as the case may be) of our 7th Annual General Meeting, which will be held at the same venue and on the same day at 10.30 a.m.

Venue of the EGM : Ground Floor, East Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur

DEFINITIONS

Except where the context otherwise requires or where otherwise stated, the following definitions shall apply throughout this Circular.

Act	: Companies Act, 1965, as amended from time to time and any re-enactment thereof
Adjustment Date	: The last day of the month immediately preceding Closing
Affected Listed Issuer	: 'Affected Listed Issuer' as defined under PN17 of the Listing Requirements
Affin Investment or Independent Adviser	: Affin Investment Bank Berhad (9999-V)
BAFIA	: Banking and Financial Institutions Act, 1989, as amended from time to time and any re-enactment thereof
BMA	: Business merger agreement dated 15 June 2012 entered into between ECMLIB and KIBB for the Proposed Business Merger
BNM	: Bank Negara Malaysia
Board	: Board of Directors of ECMLFG
Bursa Securities	: Bursa Malaysia Securities Berhad (635998-W)
Circular	: This circular dated 9 July 2012 which sets out the details of the Proposals
Closing	: Completion of the sale and purchase of the Sale Shares pursuant to the terms and conditions of the SPA
CMSA	: Capital Markets and Services Act, 2007, as amended from time to time and any re-enactment thereof
Consideration	: Total disposal consideration of RM875,114,000 (subject to post-closing adjustment as set out in Section 2.7.9 of Part A of this Circular) in relation to the Proposed Disposal to be fully satisfied in the following manner: (i) RM659,614,000 payable by KIBB; (ii) Issuance of RM95,500,000 nominal value of RULS by KNKH; and (iii) Issuance of the Consideration Shares by KNKH.
Consideration Shares	: 120,000,000 new KNKH Shares to be issued and allotted to ECMLFG at an issue price of RM1.00 as part of the Consideration on Closing
ECMLFG or Company	: ECM Libra Financial Group Berhad (713570-K)
ECMLFG Group or Group	: ECMLFG and its subsidiaries, collectively
ECMLFG Shares	: Ordinary shares of RM1.00 each in ECMLFG

DEFINITIONS (*Cont'd*)

ECMLIB	:	ECM Libra Investment Bank Berhad (682-X), being a wholly-owned subsidiary of ECMLFG and the Principal Adviser for the Proposals
ECMLIB Group	:	ECMLIB and its subsidiaries, collectively
ECMLIB Shares	:	Ordinary shares of RM1.00 each in ECMLIB
EGM	:	Extraordinary general meeting
Entitled Shareholders	:	Shareholders whose names appear on our Record of Depositors at the Entitlement Date
Entitlement Date	:	The date and time to be determined and announced later by our Board at which our shareholders' names must appear in the Record of Depositors to be entitled to the Proposed Capital Restructuring
EPS	:	Earnings per share
ESOS	:	Employee Share Option Scheme of ECMLFG
ESOS Options	:	Right to subscribe for new ECMLFG Shares granted under the ESOS
EY or Reporting Accountants	:	Messrs Ernst & Young
FYE	:	Financial year(s) ended/ending
High Court	:	High Court in Malaysia
IAL	:	Independent Advice Letter dated 9 July 2012 prepared by Affin Investment
KIBB	:	Kenanga Investment Bank Berhad (15678-H), being a wholly-owned subsidiary of KNKH
KNKH	:	K & N Kenanga Holdings Berhad (302859-X)
KNKH Group	:	KNKH and its subsidiaries, collectively
KNKH Shares	:	Ordinary shares of RM1.00 each in KNKH
LAT	:	Loss after taxation
LBT	:	Loss before taxation
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities, as amended from time to time and any re-enactment thereof
Loan Loss Reserve	:	Amount outstanding under the collective impairment provisions on loans and advances of ECMLIB
LPD	:	11 June 2012, being the latest practicable date prior to the issuance of this Circular

DEFINITIONS (Cont'd)

Maximum Scenario	:	Assuming all the 72,512,000 ESOS Options outstanding as at the LPD are exercised prior to the Proposals
Minimum Scenario	:	Assuming none of the 72,512,000 ESOS Options outstanding as at the LPD are exercised prior to the Proposals
MoF	:	Minister of Finance
NA	:	Net assets
NTA	:	Net tangible assets
PAT	:	Profit after taxation
PBR	:	Price-to-book ratio
PBT	:	Profit before taxation
PER	:	Price-to-earnings ratio
PN	:	Practice Note of the Listing Requirements
Proposals	:	Proposed Disposal, Proposed Business Merger and Proposed Capital Restructuring, collectively
Proposed Business Merger	:	Proposed business merger by way of a transfer of ECMLIB's entire business as a going concern (including substantially all the assets and liabilities) to KIBB by way of a Vesting Order at a consideration equivalent to the Consideration
Proposed Capital Reduction of ECMLIB	:	Proposed capital reduction exercise to be undertaken and effected by ECMLIB immediately upon Closing and the completion of the Proposed Business Merger
Proposed Capital Repayment	:	Proposed capital repayment to our shareholders comprising a total of RM442,647,000 in cash, 120,000,000 KNKH Shares and RM47,750,000 nominal value of RULS (Series A) via a reduction of the par value of our existing ordinary shares by an amount to be determined, in accordance with Section 64 of the Act
Proposed Capital Restructuring	:	Proposed Capital Repayment, Proposed Share Split and Proposed Share Consolidation, collectively
Proposed Disposal	:	Proposed disposal of the Sale Shares by ECMLFG to KIBB for the Consideration
Proposed Distribution-in-Specie	:	Proposed capital repayment to our shareholders of the 120,000,000 KNKH Shares and RM47,750,000 nominal value of RULS (Series A), which forms part of the Proposed Capital Repayment
Proposed Share Consolidation	:	Proposed consolidation of the ordinary shares in ECMLFG after the Proposed Share Split resulting in ECMLFG having a reduced issued and paid-up share capital comprising ordinary shares of RM1.00 each, taking into account the Proposed Disposal and the Proposed Capital Repayment
Proposed Share Split	:	Proposed share split involving the subdivision of the ordinary shares in ECMLFG after the Proposed Capital Repayment, to facilitate the Proposed Share Consolidation

DEFINITIONS (Cont'd)

RM and sen	:	Ringgit Malaysia and sen, respectively
RULS	:	Redeemable non-convertible unsecured loan stock substantially on terms as set out in Section 2.6 of Part A of this Circular
Sale Shares	:	Such ECMLIB Shares representing the entire issued and paid-up share capital of 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) which as at the LPD, comprises 513,000,000 ECMLIB Shares
SC	:	Securities Commission Malaysia
SPA	:	Conditional share purchase agreement dated 15 June 2012 entered into between ECMLFG, KIBB and KNKH for the Proposed Disposal
Vesting Order	:	A vesting order to be obtained from the High Court pursuant to the BAFIA and the CMSA and such other applicable statutes and regulations to give effect to the Proposed Business Merger
VWAMP	:	Volume weighted average market price

All references to “**our Company**” in this Circular are to ECMLFG and “**our Group**” to the ECMLFG Group. References to “**we**”, “**us**”, “**our**” and “**ourselves**” are to our Company and where the context requires, shall include our subsidiaries. All references to “**you**” in this Circular are to the shareholders of ECMLFG.

All information pertaining to the KNKH Group in this Circular has been obtained from the management of KNKH.

Words denoting the singular shall, where applicable, include the plural and vice versa. Words denoting the masculine gender shall, where applicable, include the feminine and/or neuter genders and vice versa. Reference to persons shall include corporations.

Any reference in this Circular to any provisions of the statutes, rules, regulations, guidelines or rules of stock exchange shall (where the context admits), be construed as a reference to provisions of such statutes, rules, regulations, guidelines or rules of stock exchange (as the case may be) as modified by any written law or (if applicable) amendments or re-enactment of the statutes, rules, regulations, guidelines or rules of stock exchange for the time being in force.

Any reference to a time of a day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

Any discrepancy in the tables between the amounts listed and the totals in this Circular are due to rounding.

TABLE OF CONTENTS

	PAGE
PART A	
LETTER FROM OUR BOARD TO OUR SHAREHOLDERS IN RELATION TO THE PROPOSALS:	
1. INTRODUCTION	2
2. PROPOSED DISPOSAL	3
3. PROPOSED BUSINESS MERGER	12
4. PROPOSED CAPITAL RESTRUCTURING	13
5. RATIONALE FOR THE PROPOSALS	16
6. LISTING STATUS AND FUTURE PLANS	16
7. RISK FACTORS	17
8. FINANCIAL EFFECTS OF THE PROPOSALS	18
9. APPROVALS REQUIRED	26
10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS	27
11. DIRECTORS' STATEMENT	28
12. BOARD AUDIT AND RISK MANAGEMENT COMMITTEE'S STATEMENT	28
13. INDEPENDENT ADVISER	28
14. TENTATIVE TIMELINE	29
15. HISTORICAL SHARE PRICE	29
16. EGM	30
17. FURTHER INFORMATION	30
PART B	
IAL FROM AFFIN INVESTMENT IN RELATION TO THE PROPOSALS	31
APPENDICES	
I INFORMATION ON ECMLIB GROUP	97
II INFORMATION ON KNKH GROUP	203
III OUR PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER	360
IV FURTHER INFORMATION	380
NOTICE OF EGM	Enclosed
FORM OF PROXY	Enclosed

PART A

LETTER FROM OUR BOARD TO OUR SHAREHOLDERS IN RELATION TO THE PROPOSALS



ECM Libra Financial Group Berhad (713570-K)
(Incorporated in Malaysia)

Registered Office:
2nd Floor, West Wing
Bangunan ECM Libra
8 Jalan Damansara Endah
Damansara Heights
50490 Kuala Lumpur
Malaysia

9 July 2012

Board of Directors:

Dato' Seri Kalimullah bin Masheerul Hassan (*Non-Independent Non-Executive Chairman*)
Dato' Ab. Halim bin Mohyiddin (*Independent Non-Executive Vice Chairman*)
Mr. Lim Kian Onn (*Non-Independent Non-Executive Director*)
Datuk Kamarudin bin Md Ali (*Independent Non-Executive Director*)
Encik Mahadzir bin Azizan (*Independent Non-Executive Director*)
Dato' Othman bin Abdullah (*Independent Non-Executive Director*)
Mr. Lum Sing Fai (*Non-Independent Non-Executive Director*)

To: The shareholders of ECMLFG

Dear Sir / Madam,

- **Proposed Disposal;**
 - **Proposed Business Merger;**
 - **Proposed Capital Repayment;**
 - **Proposed Share Split; and**
 - **Proposed Share Consolidation**
-

1. INTRODUCTION

On 15 June 2012, ECMLIB, on behalf of the Board announced that:

- (i) ECMLFG had entered into a conditional share purchase agreement with KIBB and KNKH for the Proposed Disposal; and
- (ii) Pursuant to the Proposed Disposal, ECMLIB simultaneously entered into a business merger agreement with KIBB for the Proposed Business Merger.

The SPA and BMA were entered into after ECMLFG and KNKH received the approval of the MoF via a letter from BNM dated 7 June 2012 and the SC via its letter dated 12 June 2012 for the Proposed Disposal and Proposed Business Merger.

On 15 June 2012, ECMLIB, on behalf of the Board also announced that upon completion of the Proposed Disposal and Proposed Business Merger, ECMLFG proposes to undertake the Proposed Capital Restructuring.

In view of the interests of the interested parties as disclosed in Section 10, Part A of this Circular, the Proposed Disposal is deemed a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements. Accordingly, our Board had on 18 April 2012 appointed Affin Investment as the Independent Adviser to advise the non-interested Directors and non-interested shareholders of ECMLFG in relation to the Proposed Disposal and Proposed Capital Repayment. In addition, in compliance with Paragraph 10.02(eA) of the Listing Requirements pertaining to major disposal, the appointment of the Independent Adviser is also pursuant to Paragraph 10.11A of the Listing Requirements.

Save for the Proposals, there are no other corporate exercises which have been announced and are pending completion prior to the printing of this Circular.

The purpose of this Circular is to provide you with the relevant information on the Proposals, to set out the Board's recommendation on the Proposals and to seek your approval for the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM. Pursuant to Paragraph 10.11A(1)(d) of the Listing Requirements, the resolutions on the Proposed Disposal and Proposed Business Merger must be passed by at least 75% in value of the Non-Interested Shareholders present and voting, either in person or by proxy, at our forthcoming EGM. Pursuant to Section 64(1) of the Act, the resolution on the Proposed Capital Restructuring must be passed by a majority of not less than three-fourths of shareholders present and voting, either in person or by proxy, at our forthcoming EGM. We have enclosed the Notice of EGM together with the Form of Proxy in this Circular.

We advise you to read and consider carefully the contents of this Circular together with the appendices and the IAL contained herein before voting on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

2. PROPOSED DISPOSAL

2.1 Details of the Proposed Disposal

The Proposed Disposal entails the disposal by ECMLFG of the Sale Shares to KIBB, for a total disposal consideration of RM875,114,000.

The Consideration shall be further adjusted to take into account the changes in the NTA and the Loan Loss Reserve between 31 January 2012 and the Adjustment Date ("**Adjustment**").

2.2 Mode of settlement of the Consideration

The Consideration shall be satisfied as follows:

- (i) RM659,614,000 to be fully satisfied by cash ("**Cash Proceeds**");
- (ii) RM95,500,000 to be fully satisfied by the issuance of RM95,500,000 nominal value of RULS; and
- (iii) RM120,000,000 to be fully satisfied by the issuance of 120,000,000 Consideration Shares at par.

The Consideration shall be subject to the Adjustment to be settled in cash.

The composition of the mode of settlement was arrived at based on the negotiations with KNKH and KIBB, after taking into consideration:

- (i) the coupon payment of 5% per annum payable on the RULS which will provide holders with a steady six (6)-monthly stream of coupon payments;

- (ii) the enlarged share capital of KNKH after the Proposals, where the issuance of the Consideration Shares would represent 16.4% of the enlarged paid-up capital of KNKH, which would provide holders with the opportunity to ride on any potential upside on the share price of KNKH after the Proposed Disposal and the Proposed Business Merger; and
- (iii) substantially the balance is in cash representing 75.4% of the Consideration (before Adjustment)

In respect of the Cash Proceeds, our Board, having considered the structure of the Proposed Disposal and the Proposed Business Merger, is satisfied that KIBB is deemed to have adequate financial resources to settle the Cash Proceeds, taking into account that on completion of the Proposed Business Merger, all assets and liabilities of the ECMLIB Group, including cash, shall be transferred to KIBB.

2.3 Basis and justification of arriving at the Consideration

The Consideration was arrived at taking into account the following:

- (i) ECMLIB's audited consolidated NA of RM653.0 million and RM687.7 million respectively as at 31 January 2011 and 31 January 2012 respectively;
- (ii) ECMLIB's audited consolidated NTA of RM589.8 million as at 31 January 2011;
- (iii) ECMLIB's audited consolidated NTA of RM635.2 million as at 31 January 2012;
- (iv) The differential sum between NTA set out in (ii) and (iii) above of RM45.4 million and a Loan Loss Reserve of RM8.7 million as at 31 January 2012; and
- (v) ECMLIB's audited consolidated PAT of RM63.7 million and RM30.4 million for the FYE 31 January 2011 and 31 January 2012 respectively.

The Consideration represents:

- a premium of RM187.4 million over ECMLIB's audited consolidated NA of RM687.7 million as at 31 January 2012, which translates into a PBR of approximately 1.27 times; and
- a PER of 28.82 times based on the PAT of ECMLIB for the FYE 31 January 2012 of RM30.4 million.

The table below provides a comparison of the PBR and PER for the Proposed Disposal against that of selected precedent transactions since 2007:

Year	Target	Acquirer	Transaction	PBR ⁽¹⁾ times	PER ⁽¹⁾ times
2012	OSK Investment Bank Berhad ("OSK")	RHB Capital Berhad ("RHB")	Acquisition of equity interest in OSK	1.77	31.93 ⁽²⁾
2011	Innosabah Securities Berhad	UOB-Kay Hian Holdings Limited	Acquisition of equity interest in Innosabah Securities Berhad	1.36	24.96
2011	Kim Eng Holdings Limited	Aseam Credit Sdn Bhd	Acquisition of equity interest in Kim Eng Holdings Limited	1.91	26.76

Year	Target	Acquirer	Transaction	PBR ⁽¹⁾ times	PER ⁽¹⁾ times
2007	Malaysian Industrial Development Finance Berhad	Permodalan Nasional Berhad	Acquisition of remaining shares not already owned by Permodalan Nasional Berhad	0.91	26.76
2007	AmlInvestment Group Berhad	AMMB Holdings Berhad	Privatisation of AmlInvestment Group Berhad	2.10	17.25
Average PBR / PER of the selected transactions (times)				1.61	25.53

Notes:

- (1) As extracted from the announcements and circulars in respect of the respective transactions.
- (2) The PER of the OSK-RHB transaction reflects reported earnings available as at 4 January 2012, being the last practicable date for application for BNM and MoF approvals, as disclosed in RHB's shareholders' circular dated 28 May 2012. In addition, if reported earnings available as at 15 May 2012 are used, the PER would be 126.9 times and the average PER of the selected transactions above would be 35.34 times.

The PBR for the Proposed Disposal of 1.27 times is below the average PBR of the selected precedent transactions of 1.61 times.

The PER for the Proposed Disposal of 28.82 times is above the average PER of selected precedent transactions of 25.53 times.

2.4 Basis of determining the issue price of the Consideration Shares

The issue price of the Consideration Shares of RM1.00 each was arrived at after taking into consideration the par value of the KNKH Shares of RM1.00 each.

The Board had considered that the Consideration Shares will be issued at the par value, which represents a premium of 58.7% to the five (5) days VWAMP of KNKH Shares up to 14 June 2012 (being the last market day prior to the date of the announcement of the Proposals) of RM0.633 per KNKH Share.

In this respect, the effective value of the Consideration Shares based on the five (5) days VWAMP of KNKH Shares up to 14 June 2012 (being the last market day prior to the date of the announcement of the Proposals) would be approximately RM76.0 million and the effective disposal consideration would be RM831,114,000. The Board had considered the effective disposal consideration and is of the opinion that it is still fair and reasonable as it represents:

- a premium of RM143.4 million over ECMLIB's audited consolidated NA of RM687.7 million as at 31 January 2012, which translates into a PBR of approximately 1.21 times; and
- a PER of 27.34 times based on the PAT of ECMLIB for the FYE 31 January 2012 of RM30.4 million.

In addition to the above, the Board had also taken into consideration that there are no other interested purchasers for ECMLIB.

The Board is of the opinion that the basis of determining the pricing of the Consideration Shares is fair and reasonable, after taking into account the following:

- (i) the Consideration Shares cannot be issued at lower than the par value of the KNKH Shares;

- (ii) overall, the Consideration Shares are being issued to settle RM120,000,000 out of a total consideration of RM875,114,000, representing approximately 13.7% of the Consideration (before any post-closing adjustment);
- (iii) the minimal effect it has on the PBR as calculated above; and
- (iv) the mode of settlement of the Consideration as stated in Section 2.2 of Part A of this Circular.

2.5 Ranking and listing of the Consideration Shares

The Consideration Shares will, upon allotment and issue, rank *pari passu* in all respects with the then existing KNKH Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid on an entitlement date which is prior to the date of allotment and issue of the Consideration Shares.

The approval-in-principle from Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of the Bursa Securities had been obtained via its letter dated 6 July 2012.

2.6 Principal terms of the RULS

The issuance of the RULS is subject to, *inter-alia*, the approval of the SC under the Private Debt Securities Guidelines, and hence the principal terms of the RULS as set out below are the proposed principal terms, subject to approvals for any waivers and/or exemptions being sought and obtained by KNKH:

Issuer	: KNKH
Issue size	: Series A - RM47,750,000 in nominal value Series B - RM47,750,000 in nominal value
Issue price	: At par of RM1.00 each.
Tenure	: Up to two (2) years commencing from date of issue of the RULS.
Interest	: The RULS shall bear a 5% per annum interest, payable semi-annually.
Conversion rights	: Non-convertible.
Selling Restriction	: Non-transferable ⁽¹⁾ and non-tradable.
Redemption schedule	: Series A will be redeemed on the 1 st anniversary. Series B will be redeemed on the 2 nd anniversary.
Early redemption	: The Issuer has the option to redeem all or part of the RULS subject to a minimum of RM1,000,000 or multiples thereof during the tenure of the RULS on an Interest payment date.
Redemption Price	: 100.0% (plus accrued interest, if any).
Status	: The RULS shall constitute an unsecured obligation of the Issuer and in the event of a winding-up or liquidation, the RULS shall rank <i>pari passu</i> in all respects with any other unsecured obligations of the Issuer.
Listing	: The RULS will not be listed on any stock exchange.
Rating	: The RULS will not be rated.

Note:

- (1) *The RULS shall be non-transferrable except for a one-time transfer to facilitate any distribution by ECMLFG of such RULS to its shareholders provided that the relevant exemption from the SC to rate such RULS in accordance with the relevant laws and regulations ("SC Exemption") is obtained. If the requisite approvals for the issuance of the RULS are obtained but the SC Exemption is not granted, the RULS shall be non-transferable.*

Shareholders should note that in the event the SC Exemption is not obtained, then the RULS will not be distributed to the shareholders of ECMLFG. This would affect the Proposed Capital Repayment, where the amount to be repaid under the Proposed Capital Repayment would be reduced accordingly (as further detailed in Section 4.1 of Part A of this Circular). In this respect, ECMLFG will hold the RULS and would earn the coupon on the RULS, where shareholders of ECMLFG may receive dividends from time to time from this income stream.

In the event that regulatory approvals are not received for the issuance of the RULS, ECMLFG may elect to allow the RM95.5 million to remain as an amount owing from KNKH, based on the terms as set out in Section 2.7.3(ii) of Part A of this Circular.

In the event that the SC Exemption is obtained and the RULS are distributed to the shareholders of ECMLFG, given the non-transferability of the RULS, any holder of the RULS would not be able to redeem any of the RULS until the maturity date of the RULS. However, holders of the RULS will receive the coupon payment as per the terms and conditions of the RULS.

2.7 Other salient terms of the SPA

The other salient terms and conditions of the SPA are as follows:

2.7.1 Sale Shares

The Sale Shares shall be sold by ECMLFG to KIBB, free from encumbrances and together with all rights and advantages attaching to them as at Closing.

2.7.2 Consideration Shares

ECMLFG shall, subject to the requisite approval of the SC (if required), distribute all of the Consideration Shares rateably to its shareholders as soon as practicable after Closing but in any event no later than six (6) months after Closing. If there is any delay in obtaining the requisite approval of the SC (if required) and any court sanction to distribute all or part of the Consideration Shares, the aforesaid period of six (6) months shall be extended automatically by a further period of three (3) months.

2.7.3 RULS

- (i) There are several loans as identified by ECMLFG, KIBB and KNKH which did not fall within the credit profile determined by KIBB, will not be vested to KIBB and forms the loan portfolio under the Retained Assets (as stated in Section 2.7.5 of Part A of this Circular). Whilst arrangement has been made to retire the identified margin loans over the next six (6) months due to its short-term nature, a structured term loan amounting to RM46 million maturing in June 2013 ("**Identified Loan**") will remain with KIBB until maturity. Notwithstanding any approval from the SC to allow for the one-time transfer of the RULS, from ECMLFG to its shareholders, ECMLFG shall not dispose of, assign or otherwise transfer Series B of the RULS to any person whilst the Identified Loan remains outstanding.

- (ii) If requisite approvals for the issuance of the RULS are not obtained from the relevant regulators, the parties shall negotiate with each other in good faith with the aim of reaching an agreement as to the manner of completing the transactions contemplated under the SPA. In the event that the parties fail to reach an agreement within the stipulated time period, ECMLFG may, in its sole discretion, elect to accept RM95.5 million ("**Deferred Amount**") of the Consideration as a debt owing by KNKH and payable based on the following terms:

Deferred Amount	: Tranche A – 50% of the Deferred Amount amounting to RM47,750,000 Tranche B - 50% of the Deferred Amount amounting to RM47,750,000
Tenure	: Up to two (2) years commencing from date of Closing.
Interest	: 5% per annum which shall accrue on a daily basis based on a year of 365 days, payable semi-annually.
Repayment schedule	: Tranche A will be repaid on the 1 st anniversary following Closing. Tranche B will be repaid on the 2 nd anniversary following Closing.
Early repayment	: The Deferred Amount may be prepaid subject to a minimum of RM1,000,000 or multiples thereof on any date on which the interest is payable.
Repayment of the Deferred Amount	: Deferred Amount (plus accrued interest, if any).

2.7.4 Conditions precedent

The SPA is conditional upon the satisfaction of the following:

- (i) The approval of the shareholders of ECMLFG at an EGM of ECMLFG of the requisite resolutions for the Proposed Disposal, the distribution of all or part of the Consideration Shares to ECMLFG's shareholders by way of a distribution-in-specie or capital reduction and the Proposed Business Merger, without any condition that would adversely affect the interest of KIBB and in accordance with the Act and the Listing Requirements;
- (ii) The approval of the shareholders of KNKH at an EGM of KNKH for the proposed acquisition of the Sale Shares, the assumption of the liability by KNKH to satisfy part of the Consideration, the issuance of the Consideration Shares and the RULS to ECMLFG and the Proposed Business Merger, without any condition that would adversely affect the interest of ECMLFG and in accordance with the Act and the Listing Requirements;
- (iii) The approval of the shareholders of ECMLIB at a general meeting of ECMLIB of the requisite resolution approving the Proposed Capital Reduction of ECMLIB, without any condition that would adversely affect the interest of KIBB or ECMLFG and in accordance with the Act;

- (iv) The court order confirming the Proposed Capital Reduction of ECMLIB, without any condition that would adversely affect the interest of KIBB or ECMLFG;
- (v) The Vesting Order, without any condition that would adversely affect the interest of KIBB or ECMLIB;
- (vi) The approval-in-principle of Bursa Securities for the listing of and quotation for the Consideration Shares, without any condition that would adversely affect the interest of KIBB or ECMLFG; and
- (vii) The approvals of the SC and such other relevant regulatory authorities for the issuance of the RULS, without any condition that would adversely affect the interest of KNKH or ECMLFG.

2.7.5 Retained Assets

Notwithstanding the Proposed Disposal and the Proposed Business Merger, ECMLFG, KIBB and KNKH had agreed that there shall be certain assets, properties, rights and/or benefits of ECMLIB including securities and loan portfolio (together with such liabilities associated thereto) as identified by the parties ("**Retained Assets**") where ECMLFG shall:

- (i) purchase or procure any member of its Group to purchase the Retained Assets comprising securities and other investments from ECMLIB on mutually acceptable terms for cash by way of a sale to be effected on Closing. The consideration for such Retained Assets shall be the assigned "marked to market value" and for securities that are not traded on the Bursa Securities, at the fair value to be determined by the auditors of ECMLIB, as at the Adjustment Date; and
- (ii) retire the Retained Assets comprising loan portfolio within six (6) months from the date on which ECMLFG first obtains its shareholders' approval. It is the Board's intention to ensure that such Retained Assets comprising loan portfolio are retired within the said six (6) months period.

As at the LPD, the market value of the securities (which comprise shares listed on Bursa Securities, preference shares and investments in funds in and outside Malaysia) making up part of the Retained Assets to be purchased from ECMLIB amounts to approximately RM177.6 million based on fair value of the securities as per applicable accounting standards. The identified securities under the Retained Assets are the entire proprietary investment portfolio which ECMLFG wishes to retain for its strategic investment management.

2.7.6 Due Diligence Review

KIBB shall be entitled to carry out a due diligence review on ECMLIB Group for the purpose of assessing the accuracy of ECMLFG's warranties contained in the SPA ("**Warranties**") ("**Due Diligence Review**") immediately upon the application to the High Court for the purposes of obtaining the requisite High Court order for the Proposed Capital Reduction of ECMLIB or the Vesting Order having been made.

2.7.7 Termination rights

Either party has the right to terminate the SPA (other than the surviving provisions) in the event:

- (i) the condition precedent in paragraph 2.7.4(iv) above is not satisfied and the parties fail to reach an agreement as to the manner of completing the transactions under the SPA;
- (ii) the condition precedent in paragraph 2.7.4(vii) above is not satisfied and the parties fail to reach an agreement as to the manner of completing the transactions under the SPA;
- (iii) any other conditions precedent (other than paragraphs 2.7.4(iv) and (vii) above) is not satisfied at the first instance or waived on or before the last day of the period of twelve (12) months from the date of the SPA or such other date as the parties may agree in writing;
- (iv) if ECMFLG fails to retire all the Retained Assets comprising loan portfolio in accordance with the SPA within six (6) months from the date on which ECMLFG first obtains its shareholders' approval referred to in paragraph 2.7.5(ii) and the parties fail to reach an agreement to deal with such remaining Retained Assets;
- (v) if KIBB, in the course of the Due Diligence Review, identifies any matter that results or may result in (i) any impairment of any loans and/or assets of any of the ECMLIB Group; or (ii) any of the Warranties being untrue, inaccurate or misleading in material respect and such material breach may be remedied by provisioning or further provisioning by ECMLIB in its accounts, and the parties fail to reach an agreement on any such provisioning in relation to such matter; and
- (vi) breach of any material closing obligations by the other party on Closing.

ECMLFG is entitled to terminate the SPA upon KIBB and KNKH's default or breach of their respective warranties in a material respect.

KIBB and KNKH are entitled to terminate the SPA upon ECMLFG's default or breach of its undertakings or warranties in a material respect or certain material events affecting ECMLIB's business.

There are no terms and conditions in the SPA providing for liquidated damages in the event of termination of the SPA.

2.7.8 Identified Loan

In the event the Identified Loan is not fully settled on maturity, ECMLFG agrees to make good any relevant losses incurred and certified by KIBB and KNKH in respect of the Identified Loan ("**Certified Losses**"). KNKH shall be entitled to set off the Certified Losses against Series B of the RULS or part of the Deferred Amount (as the case may be). Upon the Certified Losses being set off, ECMLFG shall be entitled to recover the outstanding Identified Loan and the benefit of any recovery shall belong to ECMLFG.

2.7.9 Post-closing adjustment

The Consideration shall be adjusted after Closing to take into account the difference between the consolidated NTA of ECMLIB as at Adjustment Date (plus the Loan Loss Reserve as at the Adjustment Date) and consolidated NTA of ECMLIB as at 31 January 2012 (plus the Loan Loss Reserve as at 31 January 2012) either as an increase or reduction to the Consideration which is to be settled by cash.

2.8 Liabilities to be assumed by KIBB

Save as provided in the SPA, all liabilities of the ECMLIB Group, shall be transferred to KIBB, including contingent liabilities and guarantees upon completion of the Proposed Disposal and Proposed Business Merger. KNKH will assume the liability to satisfy part of the Consideration via the issuance of the Consideration Shares and RULS.

2.9 Original cost and date of investment

ECMLFG's original cost of investment in ECMLIB amounts to approximately RM513.6 million, which was incurred in year 2006.

2.10 Proposed utilisation of proceeds

ECMLFG proposes to distribute RM442,647,000 from the Cash Proceeds to shareholders of ECMLFG under the Proposed Capital Repayment. The remaining Cash Proceeds will be utilised to purchase the Retained Assets as per the terms of the SPA. The balance of the Cash Proceeds, if any, will be utilised for working capital of the ECMLFG Group's continuing operations. Pending full utilisation of the proceeds, the Cash Proceeds will be invested in interest bearing instruments with financial institutions.

The RM47,750,000 nominal value of RULS (Series A) and the entire 120,000,000 Consideration Shares are proposed to be distributed to shareholders of ECMLFG under the Proposed Capital Repayment. The remaining RM47,750,000 nominal value of RULS (Series B) is proposed to remain with ECMLFG.

The details of the Proposed Capital Repayment are set out in Section 4 of this Circular.

Barring any unforeseen circumstances, the proceeds excluding any balance for working capital purposes, are expected to be fully utilised within two (2) months from the date the order confirming the Proposed Capital Repayment is sealed by the High Court.

2.11 Background information on the ECMLIB Group

ECMLIB was incorporated in Malaysia under the Act on 2 June 1930. As at the LPD, the authorised share capital of ECMLIB is RM700,000,000 comprising 700,000,000 ordinary shares of RM1.00 each, of which 513,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up. ECMLIB is a wholly-owned subsidiary of ECMLFG.

ECMLIB is principally involved in dealing with securities and derivatives and is a participating organisation of Bursa Securities and a trading participant of Bursa Malaysia Derivatives Berhad. ECMLIB is also involved in the provision of corporate finance and other advisory services by virtue of its status as an investment bank. The subsidiaries are principally engaged in the provision of nominee services to clients. The type of products and services provided by the ECMLIB Group include stockbroking, investment banking, structured lending, treasury, capital market, and wealth management.

Further details on the ECMLIB Group are set out in Appendix I.

2.12 Information on KIBB

KIBB was incorporated in Malaysia under the Act on 6 September 1973 as a private company under the name of K & N Kenanga Sdn. KIBB subsequently changed to a private limited company under the name of K & N Kenanga Sdn Bhd on 10 May 1975. Following the conversion to a public limited company on 7 December 1995, its name was changed to K & N Kenanga Bhd. It assumed its present name on 5 January 2007 when KIBB was granted investment bank status. As at the LPD, the authorised share capital of KIBB is RM800,000,000 comprising 800,000,000 ordinary shares of RM1.00 each, of which 620,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up. KIBB is a wholly-owned subsidiary of KNKH.

KIBB is involved in the investment banking business, provision of stockbroking and related financial services.

2.13 Information on KNKH

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. As at the LPD, the authorised share capital of KNKH is RM800,000,000 comprising 800,000,000 ordinary shares of RM1.00 each, of which 611,759,499 ordinary shares of RM1.00 each have been issued and fully paid-up.

KNKH is involved in investment holding and provision of management services. Further details on KNKH Group are set out in Appendix II.

3. PROPOSED BUSINESS MERGER

3.1 Details of the Proposed Business Merger

The Proposed Business Merger is pursuant to the Proposed Disposal, where upon completion of the Proposed Disposal, the businesses of KIBB and ECMLIB (where ECMLIB will then be a wholly-owned subsidiary of KIBB) shall be merged by way of a transfer of ECMLIB's entire business as a going concern (including substantially all ECMLIB's assets and liabilities) to KIBB by way of a Vesting Order.

Upon completion of the Proposed Business Merger, ECMLIB is expected to carry out the Proposed Capital Reduction of ECMLIB in accordance with the terms of the SPA.

3.2 Salient terms of the BMA

- 3.2.1 ECMLIB shall sell to KIBB the entire business of ECMLIB as a going concern together with all the assets of every description of ECMLIB, free from encumbrances and together with all rights and advantages attaching to the business as at the completion of the BMA.
- 3.2.2 KIBB shall assume all the liabilities, duties and obligations of every description of ECMLIB as at the completion of the BMA.
- 3.2.3 The consideration for the Proposed Business Merger is equivalent to the Consideration (subject to post-closing adjustment), which shall be recorded as an amount owing by KIBB to ECMLIB on the completion of the BMA.

4. PROPOSED CAPITAL RESTRUCTURING

4.1 Proposed Capital Repayment

The Proposed Capital Repayment involves a capital repayment by ECMLFG of the following to Entitled Shareholders at a date to be determined later:

- (i) a cash distribution amounting to RM442,647,000;
- (ii) distribution-in-specie of 120,000,000 KNKH Shares; and
- (iii) distribution-in-specie of RM47,750,000 nominal value of RULS (Series A).

The Proposed Capital Repayment is to be implemented through the reduction of ECMLFG's share capital in accordance with the provisions of Section 64 of the Act. Upon the completion of the Proposed Capital Repayment, the par value of ECMLFG's ordinary shares will be reduced from RM1.00 to an amount to be determined at Closing.

The amount to be deducted from the par value of ECMLFG's Shares will be determined based on the closing price of KNKH Shares on Closing and whether the SC grants approval for the issuance and transfer of the RM47,750,000 nominal value of RULS (Series A). This is in line with applicable accounting standard in Malaysia which requires the Consideration Shares to be received from KNKH on Closing to be recorded at the fair value which is equivalent to the closing price on that date. Consequently, as all the Consideration Shares are to be distributed to shareholders via the Proposed Capital Repayment, the amount to be deducted from the par value will be based on the closing price of the KNKH Shares on the same date.

In conjunction with the Proposed Capital Repayment, the existing treasury shares amounting to 2,082,862 shares will be cancelled in accordance with Section 67A of the Act. In this respect, none of the existing treasury shares will be disposed off between the date of the SPA and the implementation of the Proposed Capital Repayment.

For illustration purposes, based on the issued and paid-up share capital of ECMLFG as at the LPD of 830,901,953 ECMLFG Shares, the distribution to Entitled Shareholders of ECMLFG based on Minimum Scenario and Maximum Scenario will be as follows:

Minimum scenario: Assuming none of the 72,512,000 ESOS Options outstanding as at the LPD are exercised prior to the Proposals

Maximum scenario: Assuming all the 72,512,000 ESOS Options outstanding as at the LPD are exercised prior to the Proposals

	Minimum Scenario RM'000	Maximum Scenario RM'000
Issued and paid-up share capital as at the LPD	830,902	830,902
Cancellation of all the treasury shares of ECMLFG	(2,083)	(2,083)
Exercise of outstanding ESOS Options	-	72,512
Enlarged issued and paid-up share capital (after full exercise of ESOS Options)	828,819	901,331
Proposed Capital Repayment	(566,597)	(566,597)
Issued and paid-up share capital after the Proposed Capital Repayment	262,222	334,734

	RM'000	RM per ECMLFG Share	RM'000	RM per ECMLFG Share
Cash Distribution	442,647	0.53	442,647	0.49
Distribution-in-specie of KNKH Shares	76,200 ⁽¹⁾	0.09	76,200 ⁽¹⁾	0.09
Total distribution (not including the RULS (Series A))	518,847	0.62	518,847	0.58
Distribution-in-specie of RULS (Series A)	47,750	0.06	47,750	0.05
Total distribution (including the RULS (Series A))	566,597	0.68	566,597	0.63

Note:

- (1) The KNKH Shares were valued at RM0.635 per KNKH Share based on the closing price as at the LPD. Under Minimum Scenario, Entitled Shareholders will receive approximately 144 KNKH Shares for every 1,000 ECMLFG Shares held at the Entitlement Date and under Maximum Scenario, Entitled Shareholders will receive approximately 133 KNKH Shares for every 1,000 ECMLFG Shares held at the Entitlement Date

In determining the shareholders' entitlement to the KNKH Shares, fractional entitlements, if any, will be disregarded and shall be dealt with in such manner as the Board 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.

The theoretical market price of ECMLFG shares pursuant to the Proposed Capital Repayment may be calculated as follows:

Theoretical market price per ECMLFG share after the Proposed Capital Repayment = A – B

- (i) 'A' is the last transacted market price of ECMLFG Shares prior to the ex-date relating to the Proposed Capital Repayment; and
- (ii) 'B' is the amount of capital distribution for each ECMLFG Share held.

For illustrative purposes, the theoretical market price of ECMLFG Shares based on the last transacted price as at the LPD is calculated as follows:

Distribution with RULS (Series A)	A*	B	= A – B
Minimum Scenario	RM0.84	RM0.68	= RM0.84 – RM0.68 = RM0.16
Maximum Scenario	RM0.84	RM0.63	= RM0.84 – RM0.63 = RM0.21

Distribution without RULS (Series A)	A*	B	= A – B
Minimum Scenario	RM0.84	RM0.62	= RM0.84 – RM0.62 = RM0.22
Maximum Scenario	RM0.84	RM0.58	= RM0.84 – RM0.58 = RM0.26

Note:

* Sourced from Bloomberg

After the Proposed Capital Repayment, the new ordinary shares in ECMLFG will rank pari passu with each other.

The Proposed Capital Repayment will be funded entirely by the net proceeds received from the Proposed Disposal.

4.2 Proposed Share Split

In conjunction with the Proposed Capital Repayment, the Company proposes to undertake a share split involving the subdivision of the ordinary shares in ECMLFG after the Proposed Capital Repayment, to facilitate the Proposed Share Consolidation.

The subdivided ordinary shares in the Company, shall upon issue and allotment, rank pari passu in all respects with each other. In determining the shareholders' entitlement to the subdivided shares, fractional entitlements, if any, will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion deems fit and expedient in order to minimize the incidence of odd lots, and in the interest of the Company.

4.3 Proposed Share Consolidation

Upon completion of the Proposed Share Split, the issued and paid-up share capital of ECMLFG shall be consolidated into ordinary shares of RM1.00 each in ECMLFG.

For illustration purposes, after the Proposed Share Consolidation:

- with distribution of RULS (Series A), the issued and paid-up share capital of ECMLFG after the Proposed Share Split will be consolidated into RM262.222 million comprising 262.222 million ordinary shares of RM1.00 each under the Minimum Scenario and RM334.734 million comprising 334.734 million ordinary shares of RM1.00 each under the Maximum Scenario; and
- without distribution of RULS (Series A), the issued and paid-up share capital of ECMLFG after the Proposed Share Split will be consolidated into RM309.972 million comprising 309.972 million ordinary shares of RM1.00 each under the Minimum Scenario and RM382.484 million comprising 382.484 million ordinary shares of RM1.00 each under the Maximum Scenario.

For illustration purposes, after the Proposed Share Consolidation, the theoretical adjusted market prices of ECMLFG Shares pursuant to the completion of the Proposed Share Split and Proposed Share Consolidation for the Minimum Scenario and Maximum Scenario as set out above are as follows:

Distribution with RULS (Series A)	Minimum Scenario		Maximum Scenario	
	Price per share RM	Market capitalisation RM.000	Price per share RM	Market capitalisation RM'000
As at the LPD	0.84	696,208	RM0.84	757,118
After the Proposed Capital Repayment	0.16	129,611	RM0.21	190,521
After the Proposed Share Split and Proposed Share Consolidation ⁽¹⁾	0.49	129,611	RM0.57	190,521

Note:

(1) The theoretical adjusted market price of ECMLFG Shares after the Proposed Share Split and Proposed Share Consolidation is arrived at based on the following assumptions:

- (a) Proposed Share Split involves the following:
- **Minimum Scenario:** Subdivision of every one (1) remaining ordinary share of approximately RM0.32 each in ECMLFG into approximately thirty two (32) ordinary shares of approximately RM0.01 each in ECMLFG
 - **Maximum Scenario:** Subdivision of every one (1) remaining ordinary share of approximately RM0.37 each in ECMLFG into approximately thirty seven (37) ordinary shares of approximately RM0.01 each in ECMLFG
- (b) The Proposed Share Consolidation involves the share consolidation of approximately one hundred (100) ordinary shares of RM0.01 each into one (1) ordinary share of RM1.00 each in ECMLFG

Distribution without RULS (Series A)	Minimum Scenario		Maximum Scenario	
	Price per share RM	Market capitalisation RM.000	Price per share RM	Market capitalisation RM'000
As at the LPD	0.84	696,208	RM0.84	757,118
After the Proposed Capital Repayment	0.22	177,361	RM0.26	238,271
After the Proposed Share Split and Proposed Share Consolidation ⁽¹⁾	0.57	177,361	RM0.62	238,271

Note:

(1) The theoretical adjusted market price of ECMLFG Shares after the Proposed Share Split and Proposed Share Consolidation is arrived at based on the following assumptions:

(a) Proposed Share Split involves the following:

- **Minimum Scenario:** Subdivision of every one (1) remaining ordinary share of approximately RM0.37 each in ECMLFG into approximately thirty seven (37) ordinary shares of approximately RM0.01 each in ECMLFG
- **Maximum Scenario:** Subdivision of every one (1) remaining ordinary share of approximately RM0.42 each in ECMLFG into approximately forty two (42) ordinary shares of approximately RM0.01 each in ECMLFG

(b) The Proposed Share Consolidation involves the share consolidation of approximately one hundred (100) ordinary shares of RM0.01 each into one (1) ordinary share of RM1.00 each in ECMLFG

The consolidated ordinary shares of RM1.00 each in the Company, shall upon issue and allotment, rank pari passu in all respects with each other. In determining the shareholders' entitlement to the consolidated shares, fractional entitlements, if any, will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion deems fit and expedient in order to minimize the incidence of odd lots, and in the interest of the Company.

5. RATIONALE FOR THE PROPOSALS

The financial services sector in Malaysia has been increasingly competitive following the liberalisation of the Malaysian financial sector announced by BNM on 27 April 2009 with further liberalisation measures announced in the 2010 Budget. In the stockbroking sector, developments such as the entry of foreign stockbroking companies and liberalisation of brokerage commission sharing have contributed to an increasingly challenging investment banking environment.

The Board believes that the Proposed Disposal and Proposed Business Merger are timely as the Board is of the view that as a stand-alone mid-size investment bank, the prospects of the bank will be challenging. Therefore, the Proposed Disposal provides an opportunity for ECMLFG to exit the industry.

The Proposed Capital Restructuring is undertaken for the purpose of returning the proceeds received from the Proposed Disposal to our shareholders. After taking into consideration the current financial standing, future financial obligations and operational requirements of ECMLFG, our Board is recommending that the Proposed Capital Restructuring be undertaken as part of our Company's initiative to return capital in excess of its requirements.

6. LISTING STATUS AND FUTURE PLANS

Upon completion of the Proposed Disposal, the Board is aware that the Company may, according to the Listing Requirements, trigger criteria 2.1 (g) of Practice Note 17 of the Listing Requirements where the Company may be deemed to have suspended or ceased its major business and operations with the disposal of ECMLIB. ECMLIB contributed 93.43% and 96.24% of revenue and PAT respectively of ECMLFG for the FYE 31 January 2012. In the event the Company triggers criteria 2.1 (g) of Practice Note 17 of the Listing Requirements, the Company must, amongst others:

- announce to Bursa Securities on an immediate basis ("**First Announcement**") that the Company is a Practice Note 17 company;
- announce to Bursa Securities within three (3) months from the First Announcement, whether the regularization plan will result in a significant change in the business direction or policy of the Practice Note 17 company; and
- submit the plan:
 - (i) to the SC for approval, within twelve (12) months from the date of the First Announcement and complete the implementation of the plan within such timeframe as may be prescribed by the SC; or

- (ii) to Bursa Securities and obtain Bursa Securities approval to implement the plan within twelve (12) months from the date of the First Announcement if the regularisation plan does not result in a significant change in the business direction or policy of the Practice Note 17 company.

Pursuant to the above, the Proposed Disposal represents a major disposal in accordance with paragraph 10.02(eA) of the Listing Requirements.

Notwithstanding, the Company will carry on as an investment holding company and will still have continuing operations by virtue of Libra Invest Berhad (“LIB”). LIB, a wholly-owned asset management company, is a fund management company licensed under the CMSA. As at 31 May 2012, LIB manages about RM2.8 billion of assets in the equity and bond markets on behalf of institutional and retail investors nationwide. LIB’s clients include pension funds, public listed companies and high net worth individuals. LIB manages 13 unit trust funds and 7 wholesale funds as well as private mandates. The Company will also have continuing operations from the management of the Retained Assets (comprising securities and other investments) and money lending activities. Based on the last audited financial statements for FYE 31 January 2012, LIB contributed RM11.7 million in revenue and RM2.3 million in PBT while proprietary investments contributed RM8.6 million in income to ECMLFG. This is expected to be the platform for the Company to maintain its listing status, and if necessary, the Board will make the requisite applications to the relevant authorities for the same.

The Group has plans to grow its fund management business through various initiatives identified under its business plan. The Group may also explore and undertake other strategic investments to enhance its earnings profile. This may include exploring and undertaking investments in private equity and real-estate and real-estate related investments.

In addition, ECMLFG will not trigger Practice Note 16 of the Listing Requirements following the Proposed Disposal based on proforma position as at the LPD.

7. RISK FACTORS

7.1 Completion risks

The completion of the Proposals will be conditional upon the conditions precedent set out in the SPA, including the approvals/consent in Section 9 being obtained/fulfilled or waived (as the case may be). There is no certainty that such approvals and/or conditions will be obtained, satisfied and/or waived. However, ECMLFG will ensure that all reasonable steps will be taken in relation to the completion of the Proposals.

7.2 Integration risks

The key integration risks pursuant to KNKH Group’s intention to integrate the operations of ECMLIB into those of KIBB upon the completion of the Proposed Disposal and Proposed Business Merger include, but not limited to the following:

- (i) Disruptions to key business processes and impact on business continuity;
- (ii) Retention of key employees of both the KNKH Group and ECMLIB Group after the Proposed Disposal and Proposed Business Merger; and
- (iii) Customer attrition for the enlarged KNKH Group following the completion of the Proposed Disposal and Proposed Business Merger.

KIBB will undertake the necessary efforts to mitigate the mentioned risks and to ensure a smooth and proper integration. This includes ensuring effective communications and risk controls across different levels throughout this process. Notwithstanding the foregoing, no assurance can be given that any of the aforesaid risks will not have a material adverse effect on the financial and operating conditions of the enlarged KNKH Group.

7.3 Listing status of ECMLFG pursuant to the Proposed Disposal

Upon completion of the Proposed Disposal, ECMLFG may trigger one of the criteria prescribed by Bursa Securities as set out in Practice Note 17 of the Listing Requirements and as such, may be classified as an affected listed issuer pursuant to Paragraph 8.04(2) of the Listing Requirements. Should ECMLFG fall under Practice Note 17 of the Listing Requirements, the Company would have to regularise its condition as an affected listed issuer within the stipulated timeframe set out under the Listing Requirements.

However, there is no assurance that the relevant authorities will approve the regularisation plan, and for the Company to implement the plan within the timeframe stipulated by the relevant authorities. In the event of a failure to regularise the Company, Bursa Securities will proceed to delist the securities of the Company.

The Board intends to self regularise and maintain the listing status of ECMLFG after the Proposals whereby the Company will carry on as an investment holding company and will still have its fund management business held through its wholly-owned subsidiary, LIB and the management of Retained Assets (comprising securities and other investments). In addition, ECMLFG has other subsidiaries involved in the investment advisory, provision of research services and provision of credit services business. The Group has plans to grow its fund management business and may also explore and undertake other strategic investments to enhance its earnings portfolio.

7.4 Merger implementation risk

The intended synergies resulting from the Proposed Business Merger will require effective execution and implementation and may not be reflected in KNKH's future share price. However, KNKH will undertake the necessary efforts to extract the merger synergies between ECMLIB and KIBB. Notwithstanding, such integration plans are subject to implementation risks, which may or may not be successfully executed.

In this respect, we understand from KNKH and KIBB that they have engaged a reputable consultancy firm to assist in the merger integration project.

7.5 Risk of RULS

Given that the RULS would not be listed and are non-transferable, there is no avenue to liquidate the RULS for cash until maturity. However, the RULS will be fully redeemed at the end of its one (1)-year tenure for Series A and two (2)-year tenure for Series B of the RULS, where in the meantime it will carry a semi-annual coupon payment of 5% per annum. Notwithstanding, the RULS represent an unsecured obligation of KNKH and shall rank pari passu with any other unsecured obligation of KNKH. However, unsecured creditors will have a general claim on the assets of the KNKH after the specific pledged assets have been assigned to the secured creditors. As such, there is no assurance that the holders of the RULS would be able to fully realise their claims in the event of liquidation or winding up of KNKH.

8. FINANCIAL EFFECTS OF THE PROPOSALS

The effects of the Proposed Disposal and Proposed Capital Restructuring are set out as follows:

8.1 Share capital

The Proposed Disposal will not have any effect on the issued and paid-up share capital of ECMLFG.

The effects of the Proposed Capital Restructuring on the issued and paid-up share capital of our Company are set out below:

Distribution with RULS (Series A):

	Minimum Scenario			Maximum Scenario		
	No. of shares '000	Par value RM	Share capital RM'000	No. of shares '000	Par value RM	Share capital RM'000
Issued and paid-up share capital as at the LPD	830,902	1.00	830,902	830,902	1.00	830,902
Cancellation of all the treasury shares of ECMLFG	(2,083)	-	(2,083)	(2,083)	-	(2,083)
	828,819	1.00	828,819	828,819	1.00	828,819
Exercise of all the 72,512,000 ESOS Options outstanding as at the LPD	-	-	-	72,512	1.00	72,512
	828,819	1.00	828,819	901,331	1.00	901,331
Proposed Capital Restructuring	(566,597)	-	(566,597)	(566,597)	-	(566,597)
Issued and paid-up share capital after the Proposed Capital Restructuring	262,222	1.00	262,222	334,734	1.00	334,734

Distribution without RULS (Series A):

	Minimum Scenario			Maximum Scenario		
	No. of shares '000	Par value RM	Share capital RM'000	No. of shares '000	Par value RM	Share capital RM'000
Issued and paid-up share capital as at the LPD	830,902	1.00	830,902	830,902	1.00	830,902
Cancellation of all the treasury shares of ECMLFG	(2,083)	-	(2,083)	(2,083)	-	(2,083)
	828,819	1.00	828,819	828,819	1.00	828,819
Exercise of all the 72,512,000 ESOS Options outstanding as at the LPD	-	-	-	72,512	1.00	72,512
	828,819	1.00	828,819	901,331	1.00	901,331
Proposed Capital Restructuring	(518,847)	-	(518,847)	(518,847)	-	(518,847)
Issued and paid-up share capital after the Proposed Capital Restructuring	309,972	1.00	309,972	382,484	1.00	382,484

8.2 Substantial shareholders' shareholding

The Proposed Disposal will not have any effect on the substantial shareholders' shareholdings in ECMLFG.

The Proposed Capital Repayment will not have any effect on the shareholdings of our substantial shareholders as the reduction of our share capital will be effected via a proportionate reduction of the par value of all ordinary shares of ECMLFG.

The effects of the Proposed Share Split and Proposed Share Consolidation on the substantial shareholders' shareholdings in ECMLFG are as follows:

Minimum Scenario

Substantial shareholders	As at the LPD				After the Proposed Capital Restructuring			
	Direct		Indirect		With the distribution of RULS (Series A)		Without the distribution of RULS (Series A)	
	No. of shares '000	%	No. of shares '000	%	No. of shares '000	%	No. of shares '000	%
Equity Vision Sdn Bhd	134,436	16.22	-	-	42,533	16.22	50,278	16.22
Lim Kian Onn	80,288	9.69	-	-	25,401	9.69	30,027	9.69
Hikkaya Jaya Sdn Bhd	51,030	6.16	-	-	16,145	6.16	19,085	6.16
Tan Sri Dato' Azman Bin Hashim	-	-	199,054 ⁽¹⁾	24.02	-	-	-	-
Amcorp Group Berhad	-	-	64,618 ⁽²⁾	7.80	62,977	24.02	-	-
Clear Goal Sdn Bhd	-	-	64,618 ⁽²⁾	7.80	20,444	7.80	-	-
					20,444	7.80	24,167	7.80

Notes:

- (1) Deemed interested by virtue of Section 6A of the Act held through Hikkaya Jaya Sdn Bhd, Arab-Malaysian (CSL) Sdn Bhd and Equity Vision Sdn Bhd
(2) Deemed interested by virtue of Section 6A of the Act held through Hikkaya Jaya Sdn Bhd and Arab-Malaysian (CSL) Sdn Bhd

Maximum Scenario

Substantial shareholders	As at the LPD				After exercise of all the 72,512,000 ESOS Options outstanding as at the LPD				After the Proposed Capital Restructuring Without the distribution of RULS (Series A)			
	Direct		Indirect		Direct		Indirect		With the distribution of RULS (Series A)		Direct	
	No. of shares '000	%	No. of shares '000	%	No. of shares '000	%	No. of shares '000	%	No. of shares '000	%	No. of shares '000	%
Equity Vision Sdn Bhd	134,436	16.22	-	-	134,436	14.92	-	-	49,926	14.92	57,048	14.92
Lim Kian Onn	80,288	9.69	-	-	109,288	12.13	-	-	40,587	12.13	46,377	12.13
Hikkaya Jaya Sdn Bhd	51,030	6.16	-	-	51,030	5.66	-	-	18,951	5.66	21,655	5.66
Dato' Seri Kalimullah Bin Masheerul Hassan	32,970	3.98	-	-	61,970	6.88	-	-	23,014	6.88	26,297	6.88
Tan Sri Dato' Azman Bin Hashim	-	-	199,054 ⁽¹⁾	24.02	-	-	199,054 ⁽¹⁾	22.08	-	-	-	-
Amcorp Group Berhad	-	-	64,618 ⁽²⁾	7.80	-	-	64,618 ⁽²⁾	7.17	-	-	-	-
Clear Goal Sdn Bhd	-	-	64,618 ⁽²⁾	7.80	-	-	64,618 ⁽²⁾	7.17	-	-	-	-
									73,924	22.08	84,469	22.08
									23,998	7.17	27,421	7.17
									23,998	7.17	27,421	7.17

Notes:

- (1) Deemed interested by virtue of Section 6A of the Act held through Hikkaya Jaya Sdn Bhd, Arab-Malaysian (CSL) Sdn Bhd and Equity Vision Sdn Bhd
(2) Deemed interested by virtue of Section 6A of the Act held through Hikkaya Jaya Sdn Bhd and Arab-Malaysian (CSL) Sdn Bhd

8.3 Earnings

The Proposed Disposal is expected to reduce the consolidated earnings and EPS of ECMLFG for the FYE 31 January 2013 as the ECMLFG Group expects to realise a loss of RM48.3 million arising from the Proposed Disposal assuming it had been effected on 31 January 2012. The Proposed Capital Restructuring is expected to be completed by the fourth quarter of the ECMLFG Group's FYE 31 January 2013, and therefore, is not expected to have any material effect on the earnings of the ECMLFG Group for the FYE 31 January 2013.

For illustrative purposes, based on the audited consolidated financial statements of ECMLFG for the FYE 31 January 2012 and on the assumption that the Proposed Disposal had been effected on that date, the Proposed Disposal will have the following immediate proforma effects on the consolidated earnings of ECMLFG, before taking into account the Proposed Capital Restructuring:

	Proforma consolidated earnings RM'000	Minimum Scenario - Proforma consolidated EPS sen	Maximum Scenario - Proforma consolidated EPS sen
Net income for the audited FYE 31 January 2012	31,554	3.81	3.50
Add: Excess of sales consideration over NTA ⁽¹⁾	34,452	4.16	3.82
Proforma income before writeoff of intangible asset	66,006	7.97	7.32
Writeoff of intangible asset (merchant bank license) ⁽²⁾	(52,500)	(6.33)	(5.82)
Realised gain on available-for-sale ("AFS") securities and other assets ⁽³⁾	7,524	0.91	0.83
Effects of mark-to-market of Consideration Shares ⁽⁴⁾	(37,800)	(4.56)	(4.19)
Proforma net income for the FYE 31 January 2012	(16,770)	(2.02)	(1.86)

Notes:

- (1) Computed based on the Consideration (after adjustment in accordance with the terms of the SPA) of RM875 million less NTA of RM635 million and after writeoff of goodwill and merger reserves of RM205 million, concurrent with the Proposed Disposal. Without the goodwill and merger reserves writeoffs, the proforma excess would be RM240 million
- (2) The intangible asset relating to the merchant bank license of RM52.5 million is written-off as the license would no longer be of value after the Proposed Disposal
- (3) This relates to marked-to-market gain based on fair value as at 31 January 2012 on the securities that would be vested to KIBB being realised arising from the Proposed Disposal
- (4) Computed based on the closing price of Consideration Shares of RM0.685 as at 31 January 2012 as per applicable accounting standard which require Consideration Shares to be accounted for based on fair value

Upon completion of the Proposed Disposal, the ECMLIB Group which contributed RM30.4 million (or 96.24%) to the consolidated earnings of ECMLFG or 3.69 sen to the consolidated EPS of ECMLFG for the FYE 31 January 2012 will no longer be consolidated as part of the ECMLFG Group moving forward.

However, assuming coupon received from the remaining RULS and the cash sum of the Consideration (after the Proposed Capital Repayment) are placed in an interest-bearing deposit account with a licensed financial institution at an interest rate of 3.0% per annum, ECMLFG will derive a net interest income (after taxation) of RM4.9 million per annum or a proforma consolidated EPS of 1.88 sen based on the Minimum Scenario and 1.47 sen based on the Maximum Scenario.

The proforma effects set out above does not take into consideration any future income from the remaining assets of the ECMLFG Group.

8.4

NA, NTA and gearing

For illustrative purposes only, the proforma effects of the Proposed Disposal and Proposed Capital Restructuring on the consolidated NA, NTA and gearing of ECMLFG based on the audited consolidated statement of financial position of ECMLFG as at 31 January 2012 and assuming that the Proposed Disposal and Proposed Capital Restructuring had been effected on that date, are set out below:

Minimum Scenario

	Audited as at 31 January 2012 RM'000	After payment of final dividend by ECMLFG RM'000	After Proposed Disposal ^{(1), (2)} and purchase of Retained Assets ⁽³⁾ RM'000	After Proposed Capital Restructuring ⁽⁴⁾	
				With distribution of RULS (Series A) RM'000	Without distribution of RULS (Series A) RM'000
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	-	-	-
Merger reserves	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)	-	-
Shareholders' funds / NA	1,016,297	996,405	913,996	341,399	389,149
Number of ordinary shares in issue less treasury shares ('000)	828,819	828,819	828,819	256,222	303,972
NA per share ⁽⁵⁾ (RM)	1.23	1.20	1.10	1.33	1.28
NTA per share ⁽⁵⁾ (RM)	0.88	0.86	1.10	1.33	1.28
Total interest-bearing borrowings	-	-	-	-	-
Gearing (times)	-	-	-	-	-

Notes:

- (1) Included transfer of statutory reserve no longer required to retained earnings of RM80.8 million and payment of final dividend for FY2012 of RM19.9 million
- (2) Valuation of Consideration Shares is computed based on the closing price as at 31 January 2012 amounting to RM0.685 per KNKH Shares
- (3) Purchase of Retained Assets is based on market prices as at 31 January 2012
- (4) In conjunction with the Proposed Capital Repayment, the existing treasury shares amounting to 2,082,862 shares will be cancelled in accordance with Section 67A of the Act
- (5) Computed based on the number of ordinary shares in issue of ECMLFG less treasury shares

Maximum Scenario

	Audited as at 31 January 2012 RM'000	After exercise of 72,512,000 ESOS Options outstanding RM'000	After payment of final dividend by ECMLFG RM'000	After Proposed Disposal ^{(1),(2)} and purchase of Retained Assets ⁽³⁾ RM'000	After Proposed Capital Restructuring ⁽⁴⁾	
					With distribution of RULS (Series A) RM'000	Without distribution of RULS (Series A) RM'000
Share capital	830,902	903,414	903,414	903,414	328,734	376,484
Retained profits	59,307	62,429	40,797	73,260	73,260	73,260
AFS revaluation reserves	20,331	20,331	20,331	12,807	12,807	12,807
Equity compensation reserve	3,122	-	-	-	-	-
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)	(3,293)
General reserves	159	159	159	159	159	159
Capital reserves	-	-	-	-	504	504
Less: Treasury shares, at cost	(1,579)	(1,579)	(1,579)	(1,579)	-	-
Shareholders' funds / NA	1,016,297	1,088,809	1,067,177	984,768	412,171	459,921
Number of ordinary shares in issue						
less treasury shares ('000)						
NA per share ⁽⁵⁾ (RM)	828,819	901,331	901,331	901,331	328,734	376,484
NTA per share ⁽⁵⁾ (RM)	1.23	1.21	1.18	1.09	1.25	1.22
	0.88	0.89	0.87	1.09	1.25	1.22
Total interest-bearing borrowings	-	-	-	-	-	-
Gearing (times)	-	-	-	-	-	-

Notes:

- (1) Included transfer of statutory reserve no longer required to retained earnings of RM80.8 million and payment of final dividend for FY2012 of RM21.6 million
- (2) Valuation of Consideration Shares is computed based on the closing price as at 31 January 2012 amounting to RM0.685 per KNKH Shares
- (3) Purchase of Retained Assets is based on market prices as at 31 January 2012
- (4) In conjunction with the Proposed Capital Repayment, the existing treasury shares amounting to 2,082,862 shares will be cancelled in accordance with Section 67A of the Act
- (5) Computed based on the number of ordinary shares in issue of ECMLFG less treasury shares

For illustrative purposes only, the proforma effects of the Proposed Disposal and Proposed Capital Restructuring on the consolidated NA, NTA and gearing of ECMLFG based on the audited consolidated statement of financial position of ECMLFG as at 31 January 2012 and assuming that the Proposed Disposal and Proposed Capital Restructuring had been effected on the LPD, are set out below:

Minimum Scenario

	Audited as at 31 January 2012 RM'000	After payment of final dividend by ECMLFG RM'000	After Proposed Disposal ^{(1), (2)} and purchase of Retained Assets ⁽³⁾ RM'000	After Proposed Capital Restructuring ⁽⁴⁾	
				With distribution of RULS (Series A) RM'000	Without distribution of RULS (Series A) RM'000
Share capital	830,902	830,902	830,902	262,222	309,972
Retained profits	59,307	39,415	66,090	66,090	66,090
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	-	-	-
Merger reserves	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)	-	-
Shareholders' funds / NA	1,016,297	996,405	907,996	341,399	389,149
Number of ordinary shares in issue less treasury shares ('000)	828,819	828,819	828,819	262,222	309,972
NA per share ⁽⁵⁾ (RM)	1.23	1.20	1.10	1.30	1.26
NTA per share ⁽⁵⁾ (RM)	0.88	0.86	1.10	1.30	1.26
Total interest-bearing borrowings	-	-	-	-	-
Gearing (times)	-	-	-	-	-

Notes:

- (1) Included transfer of statutory reserve no longer required to retained earnings of RM80.8 million and payment of final dividend for FY2012 of RM19.9 million
- (2) Valuation of Consideration Shares is computed based on the closing price as at the LPD amounting to RM0.635 per KNKH Shares
- (3) Purchase of Retained Assets is computed based on market prices as at 31 January 2012
- (4) In conjunction with the Proposed Capital Repayment, the existing treasury shares amounting to 2,082,862 shares will be cancelled in accordance with Section 67A of the Act
- (5) Computed based on the number of ordinary shares in issue of ECMLFG less treasury shares

Maximum Scenario

	Audited as at 31 January 2012 RM'000	After exercise of all the 72,512,000 ESOS Options outstanding RM'000	After payment of final dividend by ECMLFG RM'000	After Proposed Disposal ^{(1),(2)} and purchase of Retained Assets ⁽³⁾ RM'000	After Proposed Capital Restructuring ⁽⁴⁾	
					With distribution of RULS (Series A) RM'000	Without distribution of RULS (Series A) RM'000
Share capital	830,902	903,414	903,414	903,414	334,734	382,484
Retained profits	59,307	62,429	40,797	67,260	67,260	67,260
AFS revaluation reserves	20,331	20,331	20,331	12,807	12,807	12,807
Equity compensation reserve	3,122	-	-	-	-	-
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)	(3,293)
General reserves	159	159	159	159	159	159
Capital reserves	-	-	-	-	504	504
Less: Treasury shares, at cost	(1,579)	(1,579)	(1,579)	(1,579)	-	-
Shareholders' funds / NA	1,016,297	1,088,809	1,067,177	978,768	412,171	459,921
Number of ordinary shares in issue less treasury shares ('000)	828,819	901,331	901,331	901,331	334,734	382,484
NA per share ⁽⁵⁾ (RM)	1.23	1.21	1.18	1.09	1.23	1.20
NTA per share ⁽⁵⁾ (RM)	0.88	0.89	0.87	1.09	1.23	1.20
Total interest-bearing borrowings	-	-	-	-	-	-
Gearing (times)	-	-	-	-	-	-

Notes:

- (1) Included transfer of statutory reserve no longer required to retained earnings of RM80.8 million and payment of final dividend for FY2012 of RM21.6 million
- (2) Valuation of Consideration Shares is computed based on the closing price as at the LPD amounting to RM0.635 per KNKH Shares
- (3) Purchase of Retained Assets is computed based on market prices as at 31 January 2012
- (4) In conjunction with the Proposed Capital Repayment, the existing treasury shares amounting to 2,082,862 shares will be cancelled in accordance with Section 67A of the Act
- (5) Computed based on the number of ordinary shares in issue of ECMLFG less treasury shares

The Proposed Business Merger will have no bearing on any of the abovementioned matters as it will be implemented immediately after the completion of the Proposed Disposal and which forms part of the internal restructuring of KIBB.

9. APPROVALS REQUIRED

On 7 June 2012, the MoF via BNM granted its approval for the Proposed Disposal and Proposed Business Merger under the BAFIA, subject to the following conditions:

No.	Conditions	Status of compliance
1.	ECMLIB shall surrender its merchant bank licence to BNM with written notice of its surrender within fourteen (14) days from the effective date of the transfer of its assets and liabilities, in accordance to section 12 of the BAFIA.	To be complied
2.	The Proposed Disposal and Proposed Business Merger being completed within a period of one year from the date of the approval letter.	To be complied

On 12 June 2012, the SC granted its approval for the Proposed Disposal and Proposed Business Merger, subject to the following conditions:

No.	Conditions	Status of compliance
1.	Upon completion of the Proposed Disposal, ECMLIB is required to notify the SC and surrender its Capital Markets Services Licence ("CMSL") within fourteen (14) days from the effective date of the transfer of their respective assets and liabilities to KIBB pursuant to sections 78(1) and 81 of the CMSA.	To be complied
2.	ECMLIB to ensure that section 81(2) of the CMSA is duly complied with before surrendering its CMSL.	To be complied
3.	All relevant applications as required under the applicable laws and guidelines in respect of the corporate proposals underlying the proposed merger exercise (including but not limited to those under section 212 of the CMSA and Listing Requirements) are in compliance with the relevant requirements and with any other conditions imposed by the relevant authorities.	To be complied

The Proposals are subject to and conditional upon *inter-alia*, approvals being obtained from the following:

- (i) the shareholders of ECMLFG for the Proposals at an EGM to be convened;
- (ii) the shareholders of ECMLIB for the Proposed Capital Reduction of ECMLIB at an EGM to be convened;
- (iii) the High Court for a court order confirming the Proposed Capital Reduction of ECMLIB and Proposed Capital Repayment;
- (iv) the SC for the Proposed Distribution-in-Specie and issuance of RULS;
- (v) the High Court for the Vesting Order;
- (vi) the shareholders of KNKH for the proposed acquisition of the Sale Shares, the assumption of the liability by KNKH to satisfy part of the Consideration, the issuance of the Consideration Shares and the RULS to ECMLFG and the Proposed Business Merger at an EGM to be convened;
- (vii) Bursa Securities for approval-in-principle for the listing of and quotation for the Consideration Shares to be issued to ECMLFG on the Main Market of Bursa Securities; and
- (viii) any other relevant authorities, if required.

The Proposed Disposal and Proposed Business Merger are inter-conditional upon the respective approvals having been obtained for each proposal. The Proposed Business Merger is to be executed upon completion of the Proposed Disposal.

The Proposed Capital Restructuring is conditional upon the respective approvals having been obtained for the Proposed Disposal and Proposed Business Merger. The Proposed Capital Restructuring is to be executed upon the completion of the Proposed Business Merger.

The Proposed Capital Repayment, Proposed Share Split and Proposed Share Consolidation are inter-conditional upon the respective approvals having been obtained for each proposal.

10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

Save as disclosed below, none of the Directors and major shareholders of ECMLFG and/or person(s) connected to them have any direct or indirect interest in the Proposed Disposal and by virtue of ECMLIB being a wholly-owned subsidiary of ECMLFG, the Proposed Business Merger:

Mr. Lum Sing Fai ("**Interested Director**") is a Director in ECMLFG and ECMLIB representing the interest of Amcorp Group Berhad, a substantial shareholder of ECMLFG. Amcorp Group Berhad is a person connected to Tan Sri Dato' Azman Bin Hashim.

Tan Sri Dato' Azman Bin Hashim ("**Interested Shareholder**"), a major shareholder of ECMLFG via his 24.02% indirect interest in ECMLFG, is deemed interested in the Proposals by virtue of his brother, Encik Abdul Aziz Bin Hashim, being a director and shareholder of KNKH. Together with his daughter, Encik Abdul Aziz Bin Hashim holds 9.19% direct and indirect interests in KNKH.

As the Proposed Disposal and the Proposed Business Merger are inter-conditional, the Interested Director and Interested Shareholder are also deemed interested in the Proposed Business Merger.

Accordingly, the Interested Director has abstained and shall continue to abstain from all deliberations and voting at all Board meetings in relation to the Proposed Disposal and Proposed Business Merger. In addition, the Interested Director and Interested Shareholder shall also abstain from voting in respect of their direct and/or indirect shareholdings (if any) and have undertaken to ensure that persons connected to them will abstain from voting on the resolutions pertaining to the Proposed Disposal and Proposed Business Merger at the EGM to be convened.

As at the LPD, the direct and indirect shareholdings of the Interested Director and Interested Shareholder in ECMLFG are as follows:

Interested parties	Nationality	Designation	Direct		Indirect	
			No. of shares	%	No. of shares	%
Lum Sing Fai	Malaysian	Director	-	-	-	-
Tan Sri Dato' Azman Bin Hashim	Malaysian	Major shareholder	-	-	199,053,898 ⁽¹⁾	24.02

Note:

(1) Deemed interested by virtue of Section 6A of the Act held through Hikkaya Jaya Sdn Bhd, Arab-Malaysian (CSL) Sdn Bhd and Equity Vision Sdn Bhd

Other than those transactions in the ordinary course of business of ECMLIB for the preceding twelve (12) months, there is no other transaction involving the Interested Shareholder.

None of the Directors and substantial shareholders of ECMLFG and/or person(s) connected to them have any direct or indirect interest in the Proposed Capital Restructuring save for their respective entitlements as shareholders of the Company, which are also available to all other Entitled Shareholders.

11. DIRECTORS' STATEMENT

Our Board (save for the Interested Director), after having considered and deliberated on the following:

- (i) all aspects of the Proposed Disposal and Proposed Business Merger (including, but not limited to the rationale and salient terms of the SPA and BMA);
- (ii) the mode of settlement of the Consideration as stated in Section 2.2 of Part A of this Circular and the rationale thereof;
- (iii) views of the Independent Adviser (including, but not limited to the economic outlook and prospects and industry overview, outlook and prospects and outlook and prospects of ECMLFG),

is of the opinion that the Proposed Disposal and Proposed Business Merger are in the best interest of our Company, is fair, reasonable and on normal commercial terms and not detrimental to the interest of the non-interested shareholders.

Our Board (save for the Interested Director) recommends you to vote in favour of the resolutions to be tabled at the forthcoming EGM in relation to the Proposed Disposal and Proposed Business Merger.

Our Board, after having considered and deliberated on all aspects of the Proposed Capital Restructuring, is of the opinion that the Proposed Capital Restructuring is in the best interest of our Company and our shareholders. Accordingly, our Board recommends you to vote in favour of the resolutions to be tabled at the forthcoming EGM in relation to the Proposed Capital Restructuring.

12. BOARD AUDIT AND RISK MANAGEMENT COMMITTEE'S STATEMENT

The Board Audit and Risk Management Committee of ECMLFG, having considered all aspects of the Proposed Disposal and Proposed Business Merger (including, but not limited to the rationale and salient terms of the SPA and BMA) as well as the views of the Independent Adviser, is of the opinion that the Proposed Disposal and Proposed Business Merger are in the best interest of ECMLFG, is fair, reasonable and on normal commercial terms and not detrimental to the interest of the non-interested shareholders.

13. INDEPENDENT ADVISER

As the Proposed Disposal is a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements and in compliance with Paragraph 10.11A of the Listing Requirements pertaining to major disposals, ECMLFG has appointed Affin Investment on 18 April 2012 as the Independent Adviser in relation to the Proposals. The role of the Independent Adviser in relation to the Proposals is as follows:

- (i) to comment as to whether the Proposals are fair and reasonable in so far as the shareholders of ECMLFG are concerned and whether the Proposals are to the detriment of the shareholders (but excluding the Interested Shareholder since the Proposed Disposal is a related party transaction), including the reasons for the key assumptions made and the factors taken into consideration in forming such opinion;

- (ii) to advise the shareholders of ECMLFG (but excluding the Interested Shareholder since the Proposed Disposal is a related party transaction) on whether they should vote in favour of the Proposals; and
- (iii) to take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in subparagraphs (i) and (ii) above.

14. TENTATIVE TIMELINE

Barring any unforeseen circumstances, the Proposals are expected to be completed by the fourth quarter of the ECMLFG Group's FYE 31 January 2013. The indicative timeline for the implementation of the Proposals is set out below:

Tentative timeline	Events
31 July 2012	Shareholders' approvals
January 2013	<ul style="list-style-type: none"> • Vesting Order • High Court order confirming the Proposed Capital Reduction of ECMLIB and Proposed Capital Repayment • Obtain regulatory approvals from all authorities and fulfil all conditions precedent • Listing of and quotation for the Consideration Shares • Completion of the Proposals

The timetable above is only indicative and is subject to change which may be necessary to facilitate implementation procedures. Any delay in an event will result in the delay of subsequent events.

15. HISTORICAL SHARE PRICE

The monthly high and low prices of ECMLFG Shares traded on the Main Market from July 2011 to June 2012 are as follows:

	High RM	Low RM
2011		
July	0.96	0.86
August	0.97	0.81
September	0.90	0.63
October	0.81	0.69
November	0.85	0.77
December	0.85	0.78
2012		
January	0.83	0.78
February	0.87	0.79
March	0.89	0.79
April	0.80	0.78
May	0.85	0.77
June	0.87	0.76
Last transacted market price of ECMLFG Shares on 14 June 2012 being the last trading day prior to the date of announcement of the Proposed Capital Restructuring		0.87
Last transacted market price of ECMLFG Shares as at the LPD		0.84

The monthly high and low prices of KNKH Shares traded on the Main Market from July 2011 to June 2012 are as follows:

	High RM	Low RM
2011		
July	0.78	0.70
August	0.80	0.65
September	0.73	0.51
October	0.62	0.51
November	0.73	0.56
December	0.74	0.61
2012		
January	0.71	0.62
February	0.71	0.66
March	0.70	0.60
April	0.62	0.54
May	0.62	0.56
June	0.66	0.60
Last transacted market price of KNKH Shares on 14 June 2012 being the last trading day prior to the date of announcement of the Proposals	0.79	0.51
Last transacted market price of KNKH Shares as at the LPD		0.64

(Source: Bloomberg)

16. EGM

We will hold our EGM (for which the notice is enclosed with this Circular) 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 our 7th Annual General Meeting, which will 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 resolutions so as to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, please complete, sign and return the Form of Proxy in accordance with the instructions contained therein as soon as possible and, in any event, so as to arrive at our registered office at 2nd Floor, West Wing, Bangunan ECM Libra, 8 Jalan Damansara Endah, Damansara Heights, 50490 Kuala Lumpur not later than forty-eight (48) hours before the time set for the EGM or any adjournment thereof.

The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

17. FURTHER INFORMATION

We advise you to refer to the attached appendices for further information.

Yours faithfully,
for and on behalf of the Board of Directors of
ECM LIBRA FINANCIAL GROUP BERHAD

Dato' Seri Kalimullah bin Masheerul Hassan
Non-Independent Non-Executive Chairman

PART B

IAL FROM AFFIN INVESTMENT IN RELATION TO THE PROPOSALS

INDEPENDENT ADVICE LETTER FROM AFFIN INVESTMENT

All words and expressions used in this IAL shall have the same meanings as defined in the Definitions section of the Circular, except where the context requires or otherwise defined herein.

Additional definitions

“Adjustment”	:	Difference between the consolidated NTA of ECMLIB and the Loan Loss Reserve as at 31 January 2012 and the Adjustment Date
“Comparable Companies”	:	Comparable companies listed in Bursa Securities whose principal activities are in the investment banking and stockbroking businesses
“EPP(s)”	:	Entry point projects
“ETP”	:	Economic Transformation Programme
“FBMKLCI”	:	FTSE Bursa Malaysia KLCI Index
“GDP”	:	Gross domestic product
“GNI”	:	Gross national income
“Government”	:	Government of Malaysia
“IPO(s)”	:	Initial Public Offerings
“Last Trading Date”	:	14 June 2012, being the last trading date prior to the announcement of the signing of the SPA and BMA
“MGS”	:	Malaysian Government Securities
“NKEA”	:	National Key Economic Area
“ROA”	:	Return on total assets
“ROE”	:	Return on shareholders’ funds
“PATAMI”	:	Profit after taxation and minority interests
“PDS”	:	Private debt securities

Comparable Companies:

“APX”	:	Apex Equity Holdings Berhad
“HDBS”	:	Hwang DBS (Malaysia) Berhad
“HLCB”	:	Hong Leong Capital Berhad
“KAF”	:	KAF-Seagroats & Campbell Berhad
“OSK”	:	OSK Holdings Berhad
“PM”	:	Pan Malaysia Capital Berhad
“TA”	:	TA Enterprise Berhad

Precedent transactions:

“HLB”	:	Hong Leong Bank Berhad
“HLIB”	:	Hong Leong Investment Bank Berhad
“MIMB”	:	MIMB Investment Bank Berhad

All references to “you” or “your” in this IAL are to the non-interested shareholders of ECMLFG.

All references to “we”, “us” or “our” in this IAL are to Affin Investment.

Registered office:

27th Floor, Menara Boustead
69 Jalan Raja Chulan
50200 Kuala Lumpur

9 July 2012

To: The Non-interested shareholders of ECMLFG

Dear Sir/Madam,

INDEPENDENT ADVICE LETTER IN RELATION TO THE:

- I. PROPOSED DISPOSAL;**
- II. PROPOSED BUSINESS MERGER; AND**
- III. PROPOSED CAPITAL RESTRUCTURING.**

This IAL is prepared for inclusion in Part B of the Circular.

1. INTRODUCTION

On 15 June 2012, ECMLIB had, on behalf of the Board announced the following:

- (i) ECMLFG had entered into the SPA with KIBB and KNKH for the Proposed Disposal; and
- (ii) Pursuant to the Proposed Disposal, ECMLIB simultaneously entered into the BMA with KIBB for the Proposed Business Merger.

On even date, ECMLIB had also, on behalf of the Board announced that upon completion of the Proposed Disposal and Proposed Business Merger, ECMLFG proposed to undertake the Proposed Capital Restructuring.

As the Proposed Disposal is a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements, Affin Investment has been appointed on 18 April 2012 as the Independent Adviser to advise the non-interested directors and non-interested shareholders of ECMLFG in relation to the Proposed Disposal and Proposed Capital Repayment. In addition, in compliance with Paragraph 10.02(eA) of the Listing Requirements pertaining to major disposals, the appointment of Affin Investment is also pursuant to Paragraph 10.11A of the Listing Requirements to advise whether the Proposals are fair and reasonable in so far as the shareholders of ECMLFG are concerned and whether the Proposals are to the detriment of the non-interested shareholders of ECMLFG.

The purpose of this IAL is to provide the non-interested shareholders of ECMLFG with an independent evaluation of the Proposals and to set out our opinion and recommendation in relation to the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of the Company, subject to the scope of our role and the limitations to our evaluation specified herein.

AFFIN INVESTMENT BANK BERHAD (9999-V)

(Formerly known as Affin Merchant Bank Berhad)

27th Floor, Menara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia.
Tel: 03-2142 3700 Fax: 03-2141 7701 Website: www.affininvestmentbank.com.my

YOU ARE ADVISED TO READ AND FULLY UNDERSTAND THIS IAL AND THE INFORMATION SET OUT IN PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES THEREIN AND TO CONSIDER CAREFULLY THE EVALUATION AND RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

2. DETAILS OF THE PROPOSALS

2.1 PROPOSED DISPOSAL

The Proposed Disposal entails the disposal by ECMLFG of the Sale Shares, representing 100% of the existing issued and paid-up share capital of ECMLIB to KIBB, for the Consideration of RM875,114,000.

The Consideration shall be further adjusted to take into account the changes in the consolidated NTA of ECMLIB and the Loan Loss Reserve between 31 January 2012 and the Adjustment Date.

Further details of the Adjustment are set out in Section 2.7.9 of Part A of the Circular.

The Consideration (subject to the Adjustment) shall be satisfied as follows:

- (i) RM659,614,000 in cash;
- (ii) RM95,500,000 to be fully satisfied by the issuance of RM95,500,000 nominal value of RULS; and
- (iii) RM120,000,00 to be fully satisfied by the issuance of 120,000,000 Consideration Shares at par.

The Adjustment shall be settled in cash.

We note that the cash payable under the Consideration of RM659,614,000 will be paid by KIBB. The Board has confirmed and Affin Investment is reasonably satisfied that having considered the structure of the Proposed Disposal and Proposed Business Merger, KIBB is deemed to have adequate financial resources to settle the cash portion of the Consideration, taking into account that on completion of the Proposed Business Merger, all assets and liabilities of the ECMLIB Group, including cash, shall be transferred to KIBB.

Save as provided in the SPA, all liabilities of the ECMLIB Group, shall be transferred to KIBB, including contingent liabilities and guarantees upon completion of the Proposed Disposal and Proposed Business Merger. KNKH will assume the liability to satisfy part of the Consideration via the issuance of the Consideration Shares and RULS.

Further details of the Proposed Disposal are set out in Section 2 of Part A of the Circular.

2.2 PROPOSED BUSINESS MERGER

The Proposed Business Merger is pursuant to the Proposed Disposal, where upon completion of the Proposed Disposal, the businesses of KIBB and ECMLIB (where ECMLIB will then be a wholly-owned subsidiary of KIBB) shall be merged by way of a transfer of ECMLIB's entire business as a going concern (including substantially all of ECMLIB's assets and liabilities) to KIBB by way of a Vesting Order.

Upon completion of the Proposed Business Merger, ECMLIB is expected to carry out the Proposed Capital Reduction of ECMLIB in accordance with the terms of the SPA.

Further details of the Proposed Business Merger are set out in Section 3 of Part A of the Circular.

2.3 PROPOSED CAPITAL RESTRUCTURING

2.3.1 PROPOSED CAPITAL REPAYMENT

The Proposed Capital Repayment involves a capital repayment by ECMLFG of the following to Entitled Shareholders at a date to be determined later:

- (i) a cash distribution amounting to RM442,647,000;
- (ii) distribution-in-specie of 120,000,000 KNKH Shares; and
- (iii) distribution-in-specie of RM47,750,000 nominal value of RULS (Series A).

The Proposed Capital Repayment is to be implemented through the reduction of ECMLFG's share capital in accordance with the provisions of Section 64 of the Act. Upon the completion of the Proposed Capital Repayment, the par value of ECMLFG's ordinary shares will be reduced from RM1.00 to an amount to be determined at Closing.

Further details of the Proposed Capital Repayment are set out in Section 4.1 of Part A of the Circular.

2.3.2 PROPOSED SHARE SPLIT

In conjunction with the Proposed Capital Repayment, ECMLFG proposes to undertake a share split involving the subdivision of the ordinary shares in ECMLFG after the Proposed Capital Repayment, to facilitate the Proposed Share Consolidation.

Further details of the Proposed Share Split are set out in Section 4.2 of Part A of the Circular.

2.3.3 PROPOSED SHARE CONSOLIDATION

Upon completion of the Proposed Share Split, the issued and paid-up share capital of ECMLFG shall be consolidated into ordinary shares of RM1.00 each in ECMLFG.

Further details of the Proposed Share Consolidation are set out in Section 4.3 of Part A of the Circular.

3. LIMITATIONS TO THE EVALUATION OF THE PROPOSALS

We have not been involved in the formulation, deliberations and negotiations of the terms and conditions of the Proposals. Our terms of reference pursuant to our appointment as an Independent Adviser to you are in accordance with the requirements relating to independent advisers as set out in Paragraph 10.08(2) and 10.11A(1) of the Listing Requirements. Our scope as the Independent Adviser is limited to expressing an independent opinion on the terms and conditions of the Proposals based on information and documents provided to us or which are available to us, including the following:

- (i) the information contained in the SPA and BMA;
- (ii) Part A of this Circular and the accompanying appendices therein;
- (iii) discussions with and representations by the management of ECMLFG;
- (iv) other relevant information furnished to us by the management of ECMLFG and the Board; and
- (v) other publicly available information.

We have relied on the Company, its directors and management to take due care to ensure that all the information, documents and representations provided to us by them to facilitate our evaluation are accurate, valid and complete in all material aspects. Accordingly, we have not independently verified such information as stated above for its reliability, accuracy and/or completeness and have not undertaken any independent investigation into the business and affairs of ECMLIB Group, KNKH Group and all relevant parties involved in the Proposals. We shall not be responsible or liable in any manner for the accuracy, validity or completeness of such information, documents or representations, or for any inaccuracies or misstatement of fact or from any omission therein.

In preparing this IAL, we have taken into consideration those factors that we believe are of relevance and importance to you as a whole for an assessment of the terms and conditions of the Proposals and therefore of your concern. Since our evaluation as set out in this IAL is rendered solely for your benefit as a whole, we have not taken into consideration any specific investment objectives, tax position, risk profiles, financial situation and particular needs of any director, individual shareholder or any specific group of shareholders. We recommend that if you have any doubt as to the action to be taken or requires specific advice in relation to the Proposals in the context of your individual investment objectives, tax position, risk profiles, financial situation or particular needs, you should consult your stockbroker, solicitor, accountant, banker or other professional advisers immediately.

Our evaluation and recommendation as set out in this IAL are based upon capital/stock market, economic, industry, regulatory and other conditions (if applicable) prevailing on, and the information/documents made available to us as at the LPD. Such conditions may change significantly over a short period of time. Our advice should be considered in the context of the entirety of this IAL.

Our scope and responsibility with regards to our evaluation and recommendation is based on the considerations set out in the ensuing sections of this IAL and where comments or points of consideration are included on the matters which may be commercially oriented, these are incidental to our overall evaluation and concern matters which we may deem material for disclosure.

We have not made any independent evaluation or appraisal of the assets and liabilities of ECMLIB or ECMLFG Group and we have not been furnished with such independent evaluation or appraisal.

We acknowledge that, based on all available information, and to the best of our knowledge and belief, this IAL constitutes a full and true disclosure of all material facts concerning the Proposals and there are no false or misleading statements or other material facts, the omission of which would make any statement herein false or misleading.

The Board has seen and approved the contents of this IAL. They have collectively and individually accepted full responsibility for the accuracy of the information contained in this IAL whereby the responsibility of the Board in respect of:

- (i) the information on KNKH Group in this IAL is limited to ensure that such information is accurately reproduced in this IAL; and
- (ii) the independent advice and expression of opinion by Affin Investment in relation to the Proposed Disposal as set out in Part B of this Circular is limited to the accuracy of the information in relation to the ECMLFG Group that were provided to Affin Investment for its evaluation of the Proposals and to ensure that all information in relation to the ECMLFG Group that are relevant to Affin Investment's evaluation of the Proposals have been accurately and completely disclosed to Affin Investment and that there are no material facts, the omission of which would make any information provided to Affin Investment false or misleading.

The Board has also confirmed that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no false and misleading statement or any facts, the omission of which would make any information or statement in this IAL and/or any information furnished by the Company to us incomplete, false, misleading or inaccurate.

4. OUR EVALUATION OF THE PROPOSALS

In our evaluation and analysis of the Proposals, we have taken into consideration, amongst others, the following:

- (i) rationale for the Proposals;
- (ii) salient terms and conditions of the SPA;
- (iii) financial performance of the ECMLIB Group, ECMLFG Group and KNKH Group;
- (iv) financial evaluation of the Consideration;
- (v) financial evaluation of the Consideration Shares;
- (vi) distribution of the Consideration to the Entitled Shareholders;
- (vii) financial effects of the Proposals;
- (viii) economic outlook and prospects and industry overview, outlook and prospects;
- (ix) outlook and prospects of ECMLFG Group and the enlarged KNKH Group; and
- (x) risk factors.

4.1 Rationale for the Proposals

As mentioned in Section 5 of Part A of the Circular, we note that the Board is of the view that the Proposed Disposal and Proposed Business Merger are timely, given that as a stand-alone investment bank (being an investment bank that is not part of a banking group comprising amongst others, a commercial bank), the prospects of ECMLIB will be challenging. Therefore, the Proposed Disposal provides an opportunity for ECMLFG to exit the industry.

The Proposed Capital Restructuring is essentially undertaken for the purpose of returning part of the proceeds received from the Proposed Disposal to the Entitled Shareholders. The Proposed Capital Restructuring is part of ECMLFG's initiative to return the capital in excess of its requirements, after taking into consideration the current financial standing, future financial obligations and operational requirements of ECMLFG.

Currently, there are nine (9) bank-backed investment banks (being investment banks which are part of a banking group) and six (6) non-bank backed or stand-alone investment banks (including ECMLIB) in Malaysia, comprising the following:

Bank-backed investment banks	Stand-alone investment banks
Affin Investment	ECMLIB
Alliance Investment Bank Berhad	HwangDBS Investment Bank Berhad
AmlInvestment Bank Berhad	KAF Investment Bank Berhad
CIMB Investment Bank Berhad	KIBB
Hong Leong Investment Bank Berhad*	MIDF Amanah Investment Bank Berhad
Maybank Investment Bank Berhad	OSK Investment Bank Berhad^
Public Investment Bank Berhad	
RHB Investment Bank Berhad^	
MIMB Investment Bank Berhad*	

Notes:

* On 10 April 2012, HLCB had entered into a conditional sale and purchase agreement with Hong Leong Bank Berhad for the proposed acquisition of MIMB Investment Bank Berhad ("**MIMB**"). Upon completion of the proposed acquisition of MIMB, the businesses of Hong Leong Investment Bank Berhad will be transferred to MIMB. Based on the announcements made by HLCB to Bursa Securities, the said proposed business rationalisation is yet to be completed as at the LPD

^ On 28 May 2012, OSK Holdings Berhad had entered into a conditional share purchase agreement with RHB Capital Berhad ("**RHB Capital**") for the proposed disposal of OSK Investment Bank Berhad ("**OSKIB**"). Upon completion of the proposed disposal of OSKIB, the business and assets of OSKIB will be merged with RHB Investment Bank Berhad. Based on the announcements made by OSK Holdings Berhad to Bursa Securities, the said proposed disposal is yet to be completed as at the LPD

In terms of the latest audited total assets, KIBB and ECMLIB are ranked ninth (9th) and tenth (10th) respectively with total assets value of RM3.05 billion and RM2.70 billion respectively. KIBB and ECMLIB are ranked seventh (7th) and tenth (10th) respectively in terms of total value of equities traded for the period from January to May 2012, with market share of 5.69% and 3.86% respectively of the total trading values of equities transacted on Bursa Securities during the same period (Source: Bursa Securities).

As the bank-backed investment banks continue to leverage on the strengths of their respective banking groups and also increasing their business scale such as via local and regional expansion, there is an increasing differentiation between the large investment banks that are part of universal banking groups and the stand-alone investment banks. The range of products of the investment banks have also broadened where the advisory role has expanded to cover regional transactions covering areas such as mergers and acquisitions, equity capital market deals and bonds issuance. Hence, a larger investment bank which has the capacity in terms of capital, expertise, infrastructure, strong franchise and branding enables it to take the business to the next level.

As such, the level of competition amongst the investment banks in Malaysia is considered high. This intense competitive landscape naturally does not favour the stand-alone mid size and smaller investment banks. A stand-alone investment bank has a relatively smaller underwriting capacity and constraint in funding unlike a bank-backed investment bank which is able to leverage on the overall size of their respective banking group such as to access funding through the commercial banking unit of their banking group. Against this backdrop, ECMLIB, being a stand-alone mid-size investment bank would face greater challenges moving forward and its financial performance could in turn, be adversely affected. Hence, the Proposed Disposal represents an opportunity for ECMLFG to sell off its investment banking arm at a premium to its net assets value. Accordingly, subsequent to the Proposed Disposal, the Company will focus on its remaining businesses comprising amongst others, fund management and proprietary investments. We understand that the Board believes there is growth potential in the fund management business and the Group has plans to grow its fund management business through various initiatives identified under its business plan. The Group may also explore and undertake other strategic investments to enhance its earnings profile which may include, exploring and undertaking investments in private equity and real-estate and real-estate related investments.

In addition, with the Proposed Disposal and subsequent merger of the businesses of ECMLIB and KIBB, ECMLFG's shareholders would be able to participate in the enlarged KIBB Group. We note that as part of the Consideration, ECMLFG will receive 120,000,000 Consideration Shares which will be entirely distributed to the shareholders of ECMLFG under the Proposed Capital Repayment.

We note that currently KIBB and ECMLIB ranked seventh (7th) and tenth (10th) respectively in terms of total value of equities traded for the period from January to May 2012 (*Source: Bursa Securities*). The Proposed Business Merger is envisaged to create the third (3rd) largest stockbroking outfit in Malaysia in terms of trading value, with approximately 10% combined market share based on the total trading values of equities transacted on Bursa Securities from January to May 2012 (*Source: Bursa Securities*), and assuming that the proposed merger of OSK Investment Bank Berhad and RHB Investment Bank Berhad as announced on 28 May 2012 is completed where the merged entity is expected to be ranked as the largest stockbroker in Malaysia with approximately 13% market share in terms of trading value based on January to May 2012 total industry trading values. Post merger, the enlarged KIBB group will have a stronger position in the stockbroking, corporate advisory, treasury, fixed income, asset management and futures trading businesses. Potential benefits and synergies are expected to be derived from the integration of KIBB and ECMLIB. This includes, amongst others, opportunities to diversify its revenue and to capitalise and tap on the greater network and customer base from the integration of the operations of KIBB and ECMLIB to provide a more comprehensive range of facilities and services to its customers. Hence, the enlarged KIBB group will be better positioned to compete with other industry players.

Based on the foregoing, we are of the opinion that the rationale for the Proposals is reasonable.

4.2 Salient terms and conditions of the SPA

The Proposed Disposal is subject to the terms and conditions of the SPA. Our comments on the salient terms of the SPA are as follows:

Salient terms	Comments by Affin Investment
4.2.1 Mode of settlement of the Consideration <i>The Purchase Price shall be satisfied in the following manner:</i> <ul style="list-style-type: none"> (i) <i>RM659,614,000 to be fully satisfied by cash;</i> (ii) <i>RM95,500,000 to be satisfied by the issuance of RM95,500,000 nominal value of RULS; and</i> (iii) <i>RM120,000,000 to be fully satisfied by the issuance of 120,000,000 Consideration Shares at par.</i> <p><i>The Consideration shall be subject to the Adjustment to be settled in cash.</i></p>	<p>Part settlement of the Consideration is by way of issuance of the RULS which constitutes 10.92% of the Consideration. The RULS is payable over a two (2) year period as follows:</p> <ul style="list-style-type: none"> (i) RM47.75 million nominal value of RULS (Series A) will be redeemed on the 1st anniversary*; and (ii) RM47.75 million nominal value of RULS (Series B) will be redeemed on the 2nd anniversary. <p>* <i>Under the Proposed Capital Repayment, RULS (Series A) is intended to be distributed to the Entitled Shareholders subject to the receipt of the approval from the SC for the issuance and one-time transfer of the RULS.</i></p>

We note that issuance of loan stocks as part settlement of the purchase consideration and the redemption period of up to two (2) years are not common for the recently completed corporate exercises involving a major disposal transaction by listed companies on Bursa Securities.

It is also to be noted that as the RULS represents a deferred cash payment and it is non-transferable as well as non-tradeable, the issuance of RULS instead of immediate cash payment as part settlement of the Consideration would result in ECMLFG/Entitled Shareholders foregoing the opportunity to receive cash and potentially invest the cash proceeds in other forms of investment which may generate higher return.

Salient terms

Comments by Affin Investment

However, it is noted that ECMLFG/its shareholders will earn interest of 5% per annum, payable semi-annually during the tenure of the RULS. The interest to be received signifies compensation for the opportunity cost to ECMLFG/Entitled Shareholders for receiving part of the Consideration on a deferred basis. We note that the interest payable on the RULS is higher than the average dividend yield of ECMLFG for the past five (5) years from FYE 31 January 2008 to FYE 31 January 2012 of 4.6% per annum and bank fixed deposit rate of 3.6% per annum *(based on 12 months fixed deposit rate quoted by Affin Bank Berhad, 2 July 2012)*.

In addition, although the RULS is non-transferable and non-tradeable, there is no certainty that there will be an active market for trading of the RULS or that you are able to realise the RULS at the nominal value in the event the RULS is transferable and tradeable.

Further, the Effective Consideration after taking into account the net present value of the RULS is fair based on the analysis set out in Section 4.4 of this IAL.

As such, we are of the view that the issuance of RULS by KNKH as part settlement of the Consideration is fair and reasonable.

It is also noted that the Consideration will also be partly satisfied by issuance of the Consideration Shares at par of RM1.00 each. As the issue price of the Consideration Shares of RM1.00 each is higher than the historical market prices of KNKH Shares for the past twelve (12) months up to the Last Trading Date and as at the LPD, the issue price Consideration Shares and the number of the Consideration Shares are not fair. Further analysis on this is set out in Section 4.5 of this IAL. However, from our evaluation of the Effective Consideration based on the market price of the Consideration Shares as set out in Section 4.4 of this IAL, the implied PER and PBR based on the Effective Consideration is higher than the PER and PBR of the Comparable Companies, and as such, we are of the view that the issuance of the Consideration Shares is reasonable.

Salient terms**Comments by Affin Investment****4.2.2 Sale Shares**

The Sale Shares shall be sold by ECMLFG to KIBB, free from encumbrances and together with all rights and advantages attaching to them as at Closing.

The entire Sale Shares will be sold to KIBB subject to terms and conditions of the SPA. This term is a normal commercial term in a sale and purchase agreement.

4.2.3 Consideration Shares

ECMLFG shall, subject to the requisite approval of the SC (if required) distribute all of the Consideration Shares rateably to its shareholders as soon as practicable after Closing but in any event no later than six (6) months after Closing. If there is any delay in obtaining the requisite approval of the SC (if required) and any court sanction to distribute all or part of the Consideration Shares, the aforesaid period of six (6) months shall be extended automatically by a further period of three (3) months.

This clause is essentially to facilitate the distribution of the Consideration Shares to the Entitled Shareholders.

4.2.4 RULS

(i) Notwithstanding any approval from the SC to allow for the one-time transfer of the RULS, from ECMLFG to its shareholders, ECMLFG shall not dispose of, assign or otherwise transfer Series B of the RULS to any person whilst the Identified Loan remains outstanding.

This clause is to ensure that the Series B of the RULS remains with ECMLFG until such time the Identified Loan is fully settled.

(ii) If requisite approvals for the issuance of the RULS are not obtained from the relevant regulators, the parties shall negotiate with each other in good faith with the aim of reaching an agreement as to the manner of completing the transactions contemplated under the SPA. In the event that the parties fail to reach an agreement within the stipulated time period, ECMLFG may, in its absolute discretion, elect to accept RM95.5 million of the Consideration as a debt owing by KNKH and payable based on the terms in the SPA.

In the event the requisite approval for the issuance of the RULS is not obtained, the parties shall negotiate in good faith with the aim of reaching an agreement to complete the Proposed Disposal and in the event the parties fail to reach an agreement, then ECMLFG may, in its absolute discretion, elect to accept RM95.5 million of the Consideration in the form of a debt owing by KNKH to ECMLFG.

The debt owing by KNKH to ECMLFG will be for a tenure of 2 years and KNKH is liable to pay an interest of 5% per annum. Based on the justification as mentioned in Section 4.2.1 above, we are of the view that the interest of 5% per annum on the deferred payment of RM95.5 million of the Consideration is fair and reasonable.

Salient terms

Comments by Affin Investment

It should also be noted that if the requisite approvals for the issuance of the RULS is not obtained, you will not receive the RULS (Series A) under the Proposed Capital Repayment. Nevertheless, as you will continue to hold ECMLFG Shares after the Proposals, you will have the opportunity to enjoy any potential benefits arising from the utilisation of the cash received by the Company upon payment of the debt owing, which may include distribution via dividend and/or to finance future investments. However, this will be dependent upon, amongst others, the capital investment strategy, working capital requirements, future financial condition and liquidity position of the ECMLFG Group at the material time.

It is to be noted that the RULS (Series A) intended to be distributed to the Entitled Shareholders represents only approximately 9% of the total distribution to the Entitled Shareholders based on the illustration shown in Section 4.1 of Part A of the Circular.

4.2.5 Conditions precedent

The SPA is conditional upon amongst others, the approvals of the shareholders of ECMLFG, KNKH and ECMLIB, court order confirming the Proposed Capital Reduction of ECMLIB, Vesting Order, Bursa Securities for the listing of and quotation for the Consideration Shares and approvals of the SC and such other relevant regulatory authorities for the issuance of the RULS.

The fulfillment of the conditions precedent is necessary to effect the Proposed Disposal and to be in compliance with the requirements of the relevant authorities. The conditions precedent also provide the assurance to the transacting parties that the necessary approvals are obtained to allow the merger of the businesses of KIBB and ECMLIB to be undertaken upon completion of the Proposed Disposal.

4.2.6 Retained Assets

Notwithstanding the Proposed Disposal and Proposed Business Merger, ECMLFG and KNKH had agreed that there shall be certain assets, properties, rights and/or benefits of ECMLIB including securities and loan portfolio (together with such liabilities associated thereto) as identified by the parties ("Retained Assets") where ECMLFG shall:

- (i) purchase or procure any member of its Group to purchase the Retained Assets comprising securities and other investments from ECMLIB on mutually acceptable terms for cash by way of a sale to be effected on Closing. The consideration for such Retained Assets shall be the assigned "marked to market value" and for securities that are not traded on the Bursa Securities, at the fair value to be determined by the auditors of ECMLIB, as at the Adjustment date; and*
- (ii) retire the Retained Assets comprising loan portfolio within six (6) months from the date on which ECMLFG first obtains its shareholders' approval. It is the Board's intention to ensure that such Retained Assets comprising loan portfolio are retired within the said six (6) months period.*

4.2.7 Due diligence review

KIBB shall be entitled to carry out a due diligence review on ECMLIB Group for the purpose of assessing the accuracy of ECMLFG's warranties contained in the SPA immediately upon the application to the High Court for the purposes of obtaining the requisite High Court order for the Proposed Capital Reduction of ECMLIB or the Vesting Order having been made.

The Proposed Disposal does not include certain assets, properties, rights and/or benefits of ECMLIB including securities and loan portfolio as these will be retained and acquired by ECMLFG or its subsidiaries. The securities and other investments to be held by ECMLFG are in line with the plans by ECMLFG to continue with its fund management business and proprietary investments subsequent to the Proposed Disposal.

It is noted that in respect of the loan portfolio as identified by the parties to be retained, the said loan portfolio shall be repaid within six (6) months from the date of approval by ECMLFG's shareholders for the Proposed Disposal. According to the management of ECMLFG, the said loan portfolio is expected to be repaid within six (6) months from the date of the EGM and as such, the management of ECMLFG does not foresee any difficulties in meeting this condition.

Nevertheless, it is noted that in the event the loan portfolio is not retired on the expiry of the six (6) months period and ECMLFG and KNKH fail to reach an agreement within 30 days from the expiry of the six (6) months period, either party may, in its sole discretion, terminate the SPA and shall have no further claim against each other referred to in Section 2.7.7 (iv) of Part A of the Circular.

This clause gives the right to KIBB to undertake a due diligence review on ECMLIB Group prior to Completion to ensure that ECMLFG's warranties contained in the SPA remains accurate after the date of the SPA.

Salient terms

Comments by Affin Investment

4.2.8 Termination rights

Either party has the right to terminate the SPA upon occurrence of certain events as detailed in Section 2.7.7 of Part A of the Circular.

This clause protects both ECMLFG and KNKH where in the event of inter-alia, non-satisfaction of any of the conditions precedent as set out in Section 2.7.4 of Part A of the Circular or the parties fail to remedy a material breach of warranty, the SPA may be terminated by either party.

4.2.9 Identified Loan

In the event the Identified Loan is not fully settled on maturity, ECMLFG agrees to make good any relevant losses incurred and certified by KIBB and KNKH in respect of the Identified Loan ("Certified Losses"). KNKH shall be entitled to set off the Certified Losses against Series B of the RULS or part of the Deferred Amount (as the case may be). Upon the Certified Losses being set off, ECMLFG shall be entitled to recover the outstanding Identified Loan and the benefit of any recovery shall belong to ECMLFG.

It is noted that the redemption amount of Series B of the RULS will be set-off against the Certified Losses in the event the Identified Loan is not fully settled on maturity. In such event, KIBB shall grant a power of attorney to ECMLFG or at the request of the ECMLFG, the Identified Loan shall be assigned to ECMLFG on terms to be mutually agreed by the parties. ECMLFG will accordingly, be able to exercise all rights, benefits and entitlements under the loan and security agreements and the benefit of any recovery shall belong to ECMLFG.

We also note that in consideration of ECMLFG's agreement to this clause on the Certified Losses being set off against Series B of the RULS, KNKH agrees to pay a fee of 2% per annum on the principal amount of the Identified Loan computed from the Closing Date until the date of full settlement of the Identified Loan, regardless of whether there is any default under the Identified Loan.

4.2.10 Post-closing adjustment

The Consideration shall be adjusted after Closing to take into account the difference between the consolidated NTA of ECMLIB as at Adjustment Date (plus the Loan Loss Reserve as at the Adjustment Date) and consolidated NTA of ECMLIB as at 31 January 2012 (plus the Loan Loss Reserve as at 31 January 2012) either as an increase or reduction to the Consideration which is to be settled by cash.

The Consideration is to be adjusted based on the amount equivalent to the difference between the consolidated NTA of ECMLIB (plus the Loan Loss Reserve) as at the Adjustment Date and the consolidated NTA of ECMLIB (plus the Loan Loss Reserve) as at 31 January 2012. The Adjustment Date will be the last day of the month immediately preceding the Closing.

The post-closing adjustment takes into account the consolidated NTA of ECMLIB as at the Adjustment Date which is consistent with the basis of determination of the Consideration, which is derived after considering the NTA of ECMLIB.

Salient terms

Comments by Affin Investment

Based on the latest quarterly results announced by ECMLFG, it is noted that its investment banking arm recorded profits for the three (3) months period ended 30 April 2012 which would translate to an increase in the NTA.

The consolidated NTA of ECMLIB as at the Adjustment Date is also dependent on the fair value changes of the available-for-sale financial assets which would be represented as part of the NTA of ECMLIB on the Adjustment Date.

Based on our comments in the table above, we are of the view that the salient terms and conditions of the SPA are **fair and reasonable**.

4.3 Financial performance of the ECMLIB Group, ECMLFG Group and KNKH Group

4.3.1 ECMLIB Group

The financial performance of EMCLIB Group based on the audited consolidated financial statements for the past five (5) FYEs from 31 January 2008 to 31 January 2012 are as set out below.

	Audited for FYE 31 January				
	2008 (restated) (RM'000)	2009 (RM'000)	2010 (RM'000)	2011 (RM'000)	2012 (RM'000)
Revenue	137,303	63,613	120,076	207,771	166,565
PBT	73,752	4,333	43,207	84,683	51,773
PAT	78,185	29,712	38,607	63,748	30,366
Basic EPS (sen)	16.78	5.79	7.53	12.43	5.92
ROE (%)	13.55	5.11	6.10	9.76	4.42
ROA (%)	6.68	1.73	1.67	2.44	1.12
Shareholders' funds / NA	577,124	580,748	632,909	653,012	687,723
Total assets	1,171,306	1,713,649	2,309,287	2,609,166	2,704,012
NA per share (RM)	1.12	1.13	1.23	1.27	1.34

FYE 31 January 2009 as compared to FYE 31 January 2008

The ECMLIB Group registered revenue of RM63.62 million for the financial year under review as compared to RM137.30 million recorded in the preceding financial year. This was mainly due to the decline in non-interest income by RM86.31 million with RM27.73 million recorded in the financial year under review as compared to RM114.04 million in the previous financial year due to the slowdown in the stockbroking and capital market activities and increase in interest expense by RM3.99 million as a result of increased deposit taking activities. This was partly offset by the reduction in operating expenses of RM14.12 million and higher net interest income of RM26.77 million as compared to RM18.14 million in the preceding financial year due to the increase in treasury activities and the commencement of lending activities upon obtaining the investment banking license during the year.

In line with the lower revenue, the ECMLIB Group recorded a PBT of RM4.33 million for the financial year under review as compared to RM73.75 million in the preceding financial year.

FYE 31 January 2010 as compared to FYE 31 January 2009

The ECMLIB Group registered revenue of RM120.08 million for the financial year under review as compared to RM63.62 million recorded in the preceding financial year. This was mainly contributed by the increase in non-interest income by RM49.11 million or 177.08% from the preceding financial year mainly due to the higher net brokerage income of RM43.15 million and trading income generated from sale of securities of RM23.20 million as compared to RM26.43 million and loss of RM14.84 million respectively in the preceding financial year. However, this was partially offset by the lower net interest income by RM1.99 million mainly due to higher interest expenses for the deposit taking activities of RM18.45 million as compared to RM9.11 million in the previous financial year. Operating expenses also increased slightly by RM6.70 million mainly due to salary, allowance and bonus payments.

Accordingly, the ECMLIB Group recorded a higher PBT of RM43.21 million as compared to RM4.33 million in the preceding financial year.

FYE 31 January 2011 as compared to FYE 31 January 2010

The ECMLIB Group registered revenue of RM207.77 million for the financial year under review as compared to the RM120.08 million recorded in the preceding financial year. This was largely contributed by the increase in non-interest income also increased by 81.96% or RM62.98 million from the preceding financial year mainly due to the higher income from the gain arising from securities available for sale of RM67.52 million as compared to RM22.24 million in the preceding financial year. Net interest income also increased by 15.25% or RM3.78 million mainly due to higher interest income from loans and advances of RM39.71 million as compared to RM19.26 million in the preceding financial year. However, this was partially negated by higher interest expense for deposit taking activities of RM35.69 million as compared to RM18.45 million in the preceding financial year.

In line with the increase in revenue, the ECMLIB Group recorded a PBT of RM84.68 million as compared to RM43.21 million in the preceding financial year. The PBT was also contributed by higher dividend income of RM9.4 million as compared to RM3.2 million in the preceding financial year. However, this was partially offset by higher operating expenses of RM79.6 million as compared to RM60.6 million in the preceding financial year and the provision of impairment allowance of RM4.7 million for securities and allowance for losses on loans, advances and financing of RM5.1 million.

FYE 31 January 2012 as compared to FYE 31 January 2011

The ECMLIB Group registered revenue of RM166.57 million for the financial year under review as compared to the RM207.77 million recorded in the preceding financial year. The lower revenue was due to the decrease in non-interest income by 41.13% or RM59.03 million from the preceding financial year and lower gain arising from securities available-for-sale of RM11.75 million as compared to RM67.52 million in the preceding financial year. Higher interest expense for deposit taking activities of RM46.98 million as compared to RM35.69 million in the previous financial year also contributed to the lower revenue recorded during the financial year under review. However, these were partially negated by the increase in net interest income by 22.90% or RM6.54 million mainly due to higher interest income from loans and advances of RM44.68 million as compared to RM39.71 million in the preceding financial year and higher interest income derived from available-for-sale securities of RM15.21 million as compared to RM11.03 million in the preceding financial year.

In line with the decline in revenue, the ECMLIB Group recorded PBT of RM51.8 million during the financial year under review as compared to RM84.68 million in the preceding financial year.

Commentary:

From the above, we note that the revenue of the ECMLIB Group has been fluctuating over the financial years under review as it is subject to the volatility arising from fluctuating market conditions. For the FYE 31 January 2012, ECMLIB suffered a substantial decline in revenue and PBT by 20% and 39% respectively from the preceding financial year largely due to weaker capital market conditions. This translated into a lower ROE and ROA of 4% and 1% respectively.

4.3.2 ECMLFG Group

The financial performance of ECMLFG Group based on the audited consolidated financial statements for the past five (5) FYEs from 31 January 2008 to 31 January 2012 are as set out below.

	Audited for FYE 31 January				
	2008 (restated) (RM'000)	2009 (restated) (RM'000)	2010 (RM'000)	2011 (RM'000)	2012 (RM'000)
Revenue	157,553	74,182	133,963	218,343	178,287
PBT/ Loss before tax – continuing operations	80,689	(20,203)	45,608	86,672	53,758
PATAMI	82,433	5,104	40,811	65,211	31,554
Basic EPS (sen)	9.92	0.62	4.99	8.01	3.84
ROE (%)	8.70	0.57	4.23	6.57	3.10
ROA (%)	5.34	0.26	1.57	2.25	1.05
Shareholders' funds / NA	947,230	903,996	964,680	992,906	1,016,297
Total assets	1,544,877	2,008,278	2,605,612	2,893,422	2,994,380
NA per share (RM)	1.14	1.12	1.19	1.21	1.23

FYE 31 January 2009 as compared to FYE 31 January 2008

The Group registered revenue of RM74.18 million for the FYE 31 January 2009 as compared to RM157.55 million recorded in the preceding financial year, representing a decline of 52.92%. This was mainly due to lackluster turnover and trading performance of Bursa Securities, which led to a drop in the Group's net brokerage income by 60.8% to RM26.4 million achieved for the financial year under review as compared to RM67.4 million for the preceding financial year. In addition, investment and trading activities recorded a loss of RM14.8 million, which was mainly due to revaluation loss of trading securities of RM12.4 million. These were partly offset by reduction in operating expenses of RM13.9 million, increased deposits taking and treasury activities, which resulted in an increase in net interest income by 12.4% from RM26.0 million during FYE 31 January 2008 to RM29.2 million during the financial year under review.

The Group has made an impairment loss of RM24.0 million on its investment in Westcomb Financial Group Limited (now known as Asiasons WFG Financial Limited), an associated company of ECMLFG with 24% equity interest, to better reflect the fair value of the investment. Consequently, the Group made a loss before tax of RM20.20 million during the financial year under review as compared to a PBT of RM80.69 million during the preceding financial year.

FYE 31 January 2010 as compared to FYE 31 January 2009

The ECMLFG Group recorded higher revenue of RM133.96 million for the FYE 31 January 2010 as compared to RM74.18 million recorded in the preceding financial year. This was mainly due to higher turnover and better trading performance of Bursa Securities which saw a higher net brokerage income recorded by the Group of RM41.1 million, an increase of 55% as compared to RM26.4 million in the preceding financial year. In addition, the investment and trading activities also improved substantially with a gain of RM28.2 million for the financial year under review from a loss of RM14.8 million in the preceding financial year.

As a result, the Group recorded a PBT of RM45.61 million during the financial year under review as compared to a loss before tax of RM20.20 million in the preceding financial year.

FYE 31 January 2011 as compared to FYE 31 January 2010

The Group recorded higher revenue of RM218.34 million for the FYE 31 January 2011 as compared to RM133.96 million recorded in the preceding financial year. This was mainly due to higher gain recorded by the investment and trading activities of RM76.4 million for the financial year under review from RM28.2 million in the preceding financial year

In line with the growth in revenue, PBT surged to RM86.67 million from RM45.61 million in the preceding financial year, representing an increase of 90.04%

FYE 31 January 2012 as compared to FYE 31 January 2011

For the FYE 31 January 2012, the Group achieved revenue of RM178.29 million, representing a decline of 18.34% from the preceding financial year. This was primarily due to decline in investment and trading activities from a gain of RM76.4 million in the preceding financial year to a gain of RM22.9 million in the financial year under review.

In line with the decline in revenue, PBT decreased by RM32.91 million or 37.97% from the preceding financial year.

Commentary:

From the above, we note that the performance of ECMLFG Group is largely affected by the performance of its stockbroking activities and treasury and capital market operations.

We have tabulated below the breakdown of revenue and PBT based on the audited consolidated financial statements of ECMLFG for the past five (5) FYEs from 31 January 2008 to 31 January 2012 are shown below.

Business segment*	Audited for FYE 31 January				
	2008 (RM'000)	2009 (RM'000)	2010 (RM'000)	2011 (RM'000)	2012 (RM'000)
Revenue**					
Stockbroking	-	-	44,862	51,782	57,330
Investment banking and structured financing	-	-	23,030	43,674	45,283
Treasury and capital market operations	-	-	54,953	111,034	62,256
Fund management	-	-	10,285	10,588	11,481
Others	-	-	833	1,265	1,937
Financial services^	148,915	94,442	-	-	-
Investment holding	78,721	16,255	-	-	-
Total	157,553	74,182	133,963	218,343	178,287
PBT/(Loss before tax)**					
Stockbroking	-	-	7,940	4,157	3,554
Investment banking and structured financing	-	-	6,857	19,477	26,035
Treasury and capital market operations	-	-	31,266	61,879	25,082
Fund management	-	-	2,344	2,203	2,472
Others	-	-	(1,098)	(1,329)	(3,604)
Financial services^	3,288	(5,543)	-	-	-
Investment holding	74,146	(12,668)	-	-	-
Total#	77,434	(18,211)	47,309	86,387	53,539

Notes:

* Details of services provided by each business segment are as follows:

No.	Business segment	Services
1.	Stockbroking	Equity-related trading and sales, market research, and custodian and nominee services to individual investors, institutions, corporations, and government organisations
2.	Investment banking and structured financing	Corporate finance and advisory services, including mergers and acquisitions, divestitures, and other corporate restructurings; and provides support services in the origination of primary market transactions, as well as manages their structuring, syndication, marketing, and distribution.
3.	Treasury and capital market operations	Services in private placement and primary distribution of fixed income securities.
4.	Fund management	Fund management services to pension funds, public listed companies, high net worth individuals, and unit trust funds.

No.	Business segment	Services
5.	Others	Proprietary investments in various asset classes and industries.
6.	Financial services	Stockbroking, investment banking, asset management, unit trusts management, credit services and custodian services.
7.	Investment holding	Provision of management services, investment in associated companies and investments.

** After inter-segment eliminations

^ For the FYEs 31 January 2008 and 31 January 2009, the Group's operating units were organised differently from the current segmentisation.

Before taking into account share of profits in associated companies, if any

It can be seen from the table above that the major revenue driver of the Group came from treasury and capital market operations and stockbroking activities whilst earnings were driven mainly by treasury and capital market operations and followed by investment banking and structured financing.

4.3.3 KNKH Group

The financial performance of KNKH Group based on the audited consolidated financial statements for the past five (5) FYEs from 31 December 2007 to 31 December 2011 are as set out below.

	Audited for FYE 31 December				
	2007 (RM'000)	2008 (RM'000)	2009 (RM'000)	2010 (RM'000)	2011 (RM'000)
Operating revenue	308,372	230,139	247,689	296,341	276,907
Profit/ (Loss) before tax	134,058	(68,253)	30,635	(50,630)	14,869
— continuing operations					
Profit/ (Loss) after tax and non-controlling interests	141,113	(53,059)	16,169	(53,301)	7,401
Basic EPS (sen)	23.07	(8.67)	2.64	(8.71)	1.21
ROE (%)	16.34	(6.73)	2.05	(7.17)	0.98
ROA (%)	5.04	(1.75)	0.55	(1.50)	0.21
Shareholders' funds / NA	863,834	787,951	804,742	743,868	752,687
Total assets	2,801,582	3,033,724	2,950,282	3,547,638	3,594,976
NA per share (RM)	1.41	1.29	1.32	1.22	1.23

(Source: Audited financial statements of KNKH)

FYE 31 December 2008 as compared to FYE 31 December 2007

KNKH Group registered revenue of RM230.14 million in during FYE 31 December 2008, representing a decline of 25.37% from the preceding financial year. This was primarily due to decrease in brokerage income as a result of the global financial crisis during the year that affected the Malaysian economy.

In line with the decrease in revenue, the Group recorded a loss before tax from continuing operations of RM68.25 million as compared to a PBT of RM134.06 million in the preceding financial year. In addition, the loss before tax was attributed to allowance for losses on loans, advances and financing amounting to RM61.03 million and impairment losses on securities portfolio of RM18.31 million from its subsidiary, KIBB during the financial year under review.

FYE 31 December 2009 as compared to FYE 31 December 2008

Revenue of KNKH Group for the FYE 31 December 2009 increased by RM17.55 million or 7.63% from the preceding financial year. This was mainly due to positive growth in net brokerage income earned by the equity division of KIBB.

In line with the increase in revenue, PBT from continuing operations for the FYE 31 December 2009 improved to RM30.64 million as compared to a loss before tax of RM68.25 million in the preceding financial year. The improved PBT was also due to lower allowances for losses on loans, advances and financing and write back in allowance for bad and doubtful debts on balances due from clients and brokers. However, these profits were partially negated by share of losses in associated companies.

FYE 31 December 2010 as compared to FYE 31 December 2009

KNKH Group's revenue during FYE 31 December 2010 grew by RM48.65 million or 19.64% from the preceding financial year. This was mainly due to higher contribution from the fund management business, interest income, other fee income and gain on disposal of quoted shares during the financial year.

However, the Group recorded a loss before tax from continuing operations of RM50.63 million as compared to a profit of RM30.64 million in the preceding financial year. This was mainly due to impairment made in respect of KIBB's loans, advances and financing amounting to RM88.45 million and impairment of investment in an associated company of RM17.69 million.

FYE 31 December 2011 as compared to FYE 31 December 2010

KNKH Group registered lower revenue of RM276.91 million during FYE 31 December 2011 or a decrease of 6.56% from the preceding financial year mainly attributed to lower interest income of RM105.95 million, lower advisory fees of RM6.89 million, lower gain on disposal of quoted shares of RM6.23 million and other fee income of RM6.18 million as compared to RM110.66 million, RM11.06 million, RM9.68 million and RM11.83 million respectively in the preceding financial year.

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 better performance was due to operational profits totaling RM11.48 million mainly from its investment banking, futures broker subsidiary companies and unit trust portfolio and bad debts recovery of RM15.87 million. These were 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.

Commentary:

From the above, we note that the revenue of the KNKH Group has been relatively stable however, its PBT has been fluctuating during the financial years under review. We note that this in part was affected by impairment on loans and advances recorded during the said financial years. It is also noted that the performance of KNKH Group for the FYE 31 December 2011 showed signs of improvement as can be seen from the PBT recorded during the year as compared to a loss before tax in the preceding financial year.

4.4 Financial evaluation of the Consideration

As set out in Section 2.2 of Part A of the Circular, the Consideration shall be satisfied by a combination of cash proceeds, RULS and Considerations Shares.

In evaluating the Consideration, we have taken into account the consideration of RM875,114,000 and the deemed value of the consideration based on the theoretical value of the RULS and closing price of KNKH Shares as at LPD ("**Effective Consideration**"), as shown below.

Method of settlement	Consideration			Effective Consideration		
	(RM)	(%)	(RM per ECMLIB Share)	(RM)	(%)	(RM per ECMLIB Share)
Cash (RM659,614,000)	659,614,000	75.37	1.29	659,614,000	79.80	1.29
KNKH Shares (120,000,000 at an issue price of RM1.00 per share)	120,000,000	13.71	0.23	⁽¹⁾ 76,200,000	9.22	0.15
RULS (RM95,500,000 at an issue price of RM1.00 each)	95,500,000	10.92	0.19	⁽²⁾ 90,770,866	10.98	0.18
	875,114,000	100.00	1.71	826,584,866	100.00	1.62

Notes:

- (1) Based on the closing price of KNKH Shares as at LPD of RM0.635
- (2) Based on the net present value of the RULS computed using the discounted cash flow method of valuation based on a discount rate of 6.7% for RULS (Series A) and 7.09% for RULS (Series B). We have adopted the said discount rates of 6.7% and 7.09% based on the derived yield-to-maturity of a 1-year and 2-year A3 rated bond respectively, being of a similar rating to KNKH of A3/P1 (Source: Rating Agency Malaysia Credit Rating Rationale, February 2012).

In arriving at our opinion on the Consideration, we have adopted the trading comparable analysis by comparing the valuation statistics represented by the Consideration and Effective Consideration to the Comparable Companies as our primary basis/methodology in our evaluation.

In addition, we have taken into consideration the following methodologies:

- (i) historical earnings and NA multiples of ECMLFG Shares;
- (ii) precedent transactions analysis; and
- (iii) dividend yield of the ECMLFG Group.

4.4.1 Trading comparable analysis

The above valuation methodology has been used as a primary basis to assess the Consideration of ECMLIB as to whether it is fair for the shareholders to accept the Proposed Disposal. The PER and PBR are used as an indication of market expectations on the valuation of companies and are also used to gauge how a company is valued as compared to its peers.

For the purpose of assessing the Consideration, we have reviewed the PER and PBR of the Comparable Companies, to give an indication of the current market expectations with regard to the valuation of industry peer companies. Nonetheless, you are advised that the Comparable Companies tabulated herein have been selected for comparison purposes only and may not be directly comparable to ECMLIB due to various factors which include, amongst others, marketability and liquidity of the shares, composition of business activities, size of the business, target markets of product offerings, profit track record, financial strength, accounting policies, risk profile and future prospects.

The comparison made herein is necessarily limited and serve only as a guide. The list of Comparable Companies set out in the table below is by no means exhaustive.

Comparable Companies	Principal activities	Market capitalisation as at Last Trading Date (RM'million)
APX	Operating as share brokers and futures broker, and provides portfolio management and nominee services. Apex Equity also establishes and manages unit trust	160.10
HLCB	Providing stocks and shares broking, corporate advisory, fund management and money lending services, online stock trading facilities and unit trust fund management	264.18
HDBS	Providing stock broking, corporate advisory, financial futures and options broking services, as well as providing services such as economic and equity research, asset and fund management, and managing unit trust fund. The company also invests in property	627.39
KAF	Providing stock broking and commodity futures broking services. The company also provides nominee and custodian services and research and analysis services on securities and capital market	200.40

Comparable Companies	Principal activities	Market capitalisation as at Last Trading Date (RM'million)
KNKH	Providing stock broking, futures broking, fund management, nominee services, management of unit trust schemes, money lending and venture capitalist, as well as operating in the property management	373.13
OSK	Providing retail and institutional broking in equities, futures and fixed income, underwriting and placement of securities, corporate finance and advisory, commercial and wholesale banking, asset management, trustee services and issues derivatives and structured products	1,448.16
PM	Providing stock broking, options and financial futures broker services, operating of research and fund management services, money lending, nominee and custodian services	65.22
TA	Providing services such as stock broking, security dealing, nominees, fund management and money lending, operating in general construction, project management, property development, investment and trusteeship	924.43

Notes:

^ *Based on closing share price as at the Last Trading Date*

As at the Last Trading Date, the market capitalisation of the ECMLFG Group is RM716.93 million.

(a) **PER**

We have compared the implied PER derived based on the Consideration, Effective Consideration and ECMLIB's audited financial statements for the FYE 31 January 2012 ("**Implied PER**") to the PER of the Comparable Companies based on the last traded prices of the respective Comparable Companies as at the Last Trading Date as follows:

Comparable Companies	Closing price as at Last Trading Date/ Consideration	Net EPS (sen)	PER (times)
	per share (RM)		
APX	0.79	8.97	8.81
HLCB	1.07	16.40	6.52
HDBS	2.46	33.95	7.25
KAF	1.68	16.24	10.34
KNKH	0.65	[^] 1.25	[*] 52.00
OSK	1.36	5.47	24.86
PM	0.08	(0.21)	#
TA	0.54	4.75	11.37
Average			11.53
ECMLIB			
– Consideration	1.71	5.92	28.82
– Effective Consideration	1.62	5.92	27.22

(Source: Bloomberg and the respective latest audited financial statements of the Comparable Companies and ECMLIB)

Note:

[^] Excludes discontinued operation

^{*} Denotes outlier and excluded for comparison purposes. Outlier is determined based on extreme deviation from the average

PER is not available as the company incurred a loss during the financial year

Based on the above table, the Implied PER of ECMLIB derived based on the Consideration and Effective Consideration of 28.82 times and 27.22 times respectively are **above** the PER range of the Comparable Companies of 6.52 times and 24.86 times and **above** the average PER of the Comparable Companies of 11.53 times.

(b) **PBR**

We have compared the implied PBR derived based on the Consideration, Effective Consideration and ECMLIB's audited financial statements for the FYE 31 January 2012 ("**Implied PBR**") to the PBR of the Comparable Companies based on the last traded prices of the respective Comparable Companies as at the Last Trading Date as follows:

Comparable Companies	Closing price as at Last Trading Date/ Consideration		PBR (times)
	per share (RM)	NA per share (RM)	
APX	0.79	2.02	0.39
HLCB	1.07	1.38	0.78
HDBS	2.46	3.28	0.75
KAF	1.68	1.93	0.87
KNKH	0.65	1.23	0.53
OSK	1.36	1.50	0.91
PM	0.08	0.17	0.47
TA	0.54	0.87	0.62
	Average		0.67
ECMLIB			
– Consideration		1.34	1.27
– Effective Consideration		1.34	1.20

(Source: Bloomberg and the respective latest audited financial statements of the Comparable Companies and ECMLIB)

Based on the above table, the Implied PBR of ECMLIB derived based on the Consideration and Effective Consideration of 1.27 times and 1.20 times respectively are **above** the PBR range of the Comparable Companies of 0.39 times and 0.91 times and **above** the average PBR of the Comparable Companies of 0.67 times.

(c) **ROA and ROE of ECMLIB**

In our evaluation of the Consideration, we have also assessed the ROA and ROE of ECMLIB.

The ROA of a company is an indicator of how profitable a company is relative to its total assets and gives an idea as to how efficient management is at using its assets to generate earnings.

The ROE of a company measures a company's profitability by revealing how much profit it generates with the money shareholders have invested. It measures a firm's efficiency at generating profits from every unit of shareholders' equity.

The table below provides the comparison of the ROA and ROE of ECMLIB relative to the Comparable Companies:

Comparable Companies	ROA (%)	ROE (%)
APX	4.26	6.36
HLCB	1.77	11.32
HDBS	2.03	9.95
KAF	4.33	8.41
KNKH	*0.33	*1.57
OSK	*0.48	3.55
PM	^	^
TA	2.41	7.14
Average	2.96	7.79
ECMLIB	1.12	4.42

(Source: Audited financial statements of the Comparable Companies and ECMLIB)

Notes:

* Denotes outlier and excluded for comparison purposes. Outlier is determined based on extreme deviation from the average

^ ROA or ROE is not available as the company incurred a loss during the financial year

Based on the table above, we note the following:

- (i) the ROA of ECMLIB of 1.12% based on the latest audited financial statements for the FYE 31 January 2012 is lower than the average ROA of the Comparable Companies of 2.96%;
- (ii) the ROE of ECMLIB of 4.42% based on the latest audited financial statements for the FYE 31 January 2012 is lower than the average ROE of the Comparable Companies of 7.79%.

You should take note of the lower ROA and ROE achieved by ECMLIB relative to the Comparable Companies. In this regard, based on the derived ROA and ROE for ECMLIB, we note that ECMLIB has generated a lower return from its total assets and shareholder's equity in generating returns to its shareholders as compared to the Comparable Companies.

In addition, we take cognisance that as at LPD, the cost of equity of ECMLFG Group is 13.1% (*Source: Bloomberg*) which is higher than the ROE of ECMLIB. As such, this indicates that the return generated from shareholder's equity may not be sufficient to compensate for the risk and required return of capital for the ECMLFG Group.

Premised on the above, we are of the opinion that the Consideration is **fair and reasonable**.

4.4.2 Historical earnings and NA multiples of ECMLFG Shares

We note that from the audited financial statements of ECMLFG, ECMLIB is a major contributor to the operating profit and PAT of the ECMLFG Group. For the FYE 31 January 2012, it contributed to approximately 95.98% and 96.24% to the Group's operating profit and PAT respectively. Hence, for comparison, we have also compared the Implied PER and Implied PBR derived based on the Consideration and Effective Consideration against ECMLFG's trading PER and trading PBR for the past twelve (12) months up to the Last Trading Date.

4.4.2.1 Earnings multiple

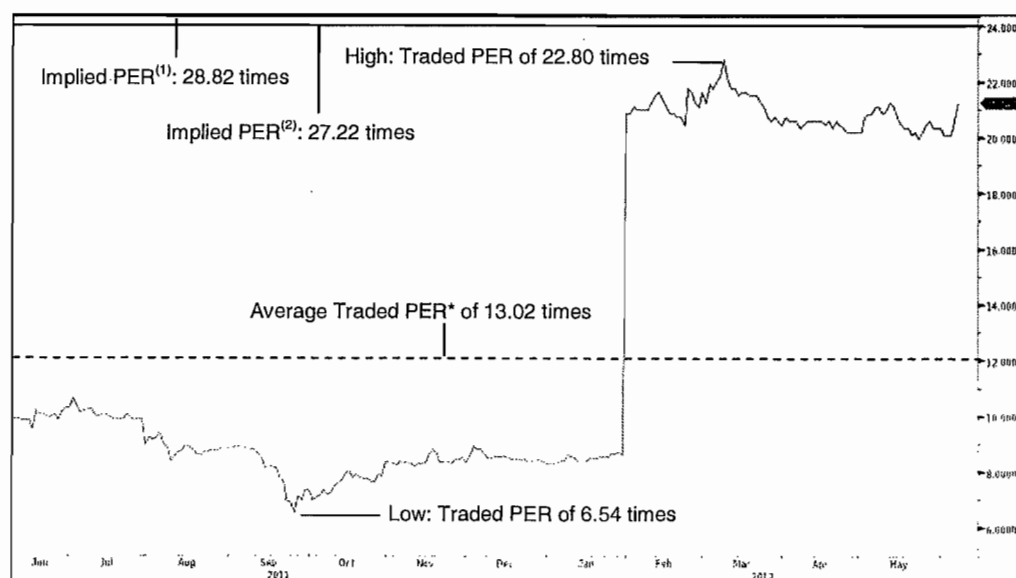
PER is a valuation metric which compares a company's share price against its EPS. It can be used to gauge how richly the company is valued relative to its peers as a higher PER would generally mean that investors are willing to pay more for a dollar's worth of earnings from a company.

The Implied PER derived based on the Consideration, Effective Consideration and ECMLIB's audited financial statements for the FYE 31 January 2012 are as follows:

	PAT for FYE 31 January 2012 (RM'000)	Implied PER (times)
- Consideration	30,366	28.82
- Effective Consideration	30,366	27.22

(Source: Audited financial statements of ECMLIB)

We have compared the Implied PER based on the audited financial statements of ECMLIB for the FYE 31 January 2012 against ECMLFG's trading PER for the past twelve (12) months up to the Last Trading Date as set out below:



(Source: Bloomberg)

Notes:

* Average Traded PER is derived based on the daily trading PER of ECMLFG for the past twelve (12) months up to the Last Trading Date, divided by twelve (12) months. Trading PER is calculated based on the last closing price of ECMLFG Shares over the trailing 12-month EPS of ECMLFG on a daily basis

(1) Based on Consideration

(2) Based on Effective Consideration

Comments

As illustrated above, the Implied PER derived based on the Consideration and Effective Consideration of 28.82 times and 27.22 times respectively are **above** the range of ECMLFG's trading PER of 6.54 times and 22.80 times and **above** the average trading PER of 13.02 times for the past twelve (12) months up to the Last Trading Date.

For illustrative purposes only, the chart above indicates that the Consideration and Effective Consideration based on the Implied PER of 28.82 times and 27.22 times respectively are higher than the value of ECMLFG Shares accorded by the market for the past twelve (12) months up to the Last Trading Date.

We note that there was a sudden increase in the historical traded PER at the end of January 2012. This was primarily due to the impact of a lower EPS of 3.84 sen for ECMLFG for the FYE 31 January 2012 which consequently resulted in a significant increase in the traded PER of ECMLFG Shares at the end of January 2012.

Premised on the above, it indicates that the Consideration is attractive based on the Implied PER as compared to the historical trading PER of ECMLFG Shares.

4.4.2.2 NA multiple

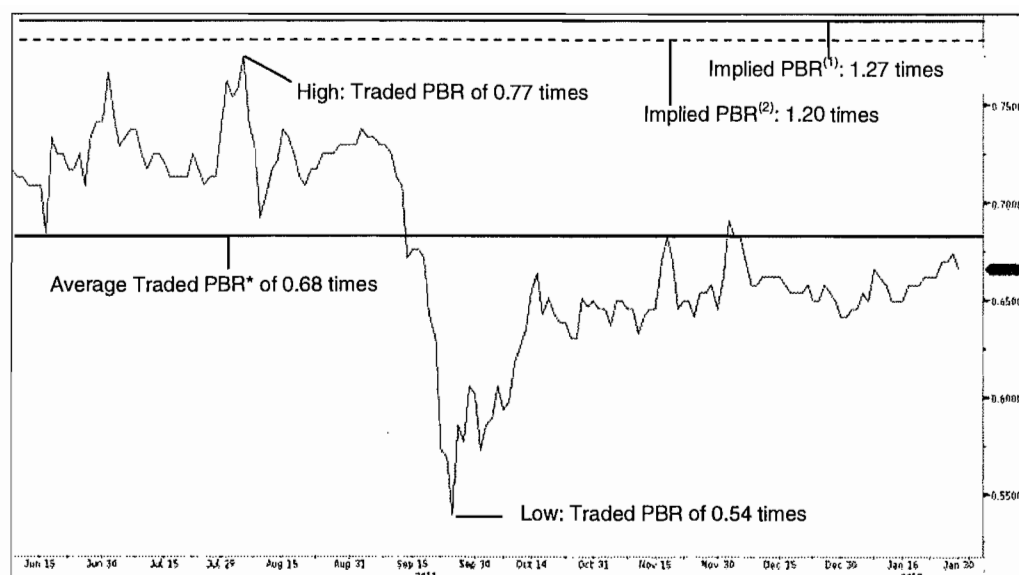
PBR is a method used in the valuation of companies by comparing the company's market value to its book value. A PBR of less than one (1) time would mean that the market value accorded to the company is less than the NA attributable to the shareholders of the company and may therefore indicate that the company is undervalued. However, PBR and other ratios such as PER should be compared to companies within the similar industry to arrive at a more meaningful conclusion regarding the valuation of a company.

The Implied PBR derived based on the Consideration and Effective Consideration and ECMLIB's audited NA per Share as at 31 January 2012 are as follows:

	NA as at 31 January 2012 (RM'000)	Implied PBR (times)
- Consideration	687,723	1.27
- Effective Consideration	687,723	1.20

(Source: Audited financial statements of ECMLIB)

We have compared the Implied PBR derived based on the Consideration, Effective Consideration and the audited financial statements of ECMLIB as at 31 January 2012 against ECMLFG's trading PBR for the past twelve (12) months up to the Last Trading Date:



(Source: Bloomberg)

Note:

* Average Traded PBR is derived based on the daily trading PBR of ECMLFG for the past twelve (12) months up to the Last Trading Date, divided by twelve (12) months. Trading PBR is calculated based on the last closing price of ECMLFG Shares over the NA per share of ECMLFG on a daily basis

(1) Based on Consideration

(2) Based on Effective Consideration

Comments

As illustrated above, the Implied PBR derived based on the Consideration and Effective Consideration of 1.27 times and 1.20 times respectively are **above** the range of ECMLFG's trading PBR of 0.54 times and 0.77 times and **above** the average trading PBR of 0.68 times for the past twelve (12) months up to the Last Trading Date.

For illustrative purposes, this means that the Consideration and Effective Consideration based on the Implied PBR of 1.27 times and 1.20 times respectively are higher than the value of ECMLFG Shares accorded by the market for the past twelve (12) months up to the Last Trading Date.

Premised on the above, it indicates that the Consideration is attractive based on the Implied PBR as compared to the historical trading PBR of ECMLFG Shares.

4.4.3 Precedent transactions analysis

In evaluating the Consideration, we have compared the Consideration to some of the precedent transactions completed involving the acquisitions of banks and financial services companies in Malaysia for the past five (5) years ("Precedent Transactions") and have compared the Implied PBR of ECMLIB to the transacted PBR of the precedent transactions as follows:

Date of announcement/ completion	Acquiror	Target company (Acquiree)	Transaction details	Purchase consideration (RM'million)	NA (RM'million)	PBR (times)
13 August 2007/ 30 October 2007	Permodalan Nasional Berhad	MIDF	Acquisition of 100% equity interest in MIDF	1,476.97	1,964.62	0.92
19 June 2007/ 15 January 2008	AMMB Holdings Berhad	AmlInvestment Group Berhad	Privatisation of AmlInvestment Group Berhad	2,393.16	2,319.35	2.10
19 October 2007/ 31 January 2009	HLIB	SIBB	Disposal of certain assets and liabilities of SIBB, which was then an indirect subsidiary of CIMB Group Holdings Berhad	48.15	(17.03)	@
19 October 2007/ 22 October 2008	HLIB	SBB Securities Sdn Bhd	Disposal by SBB Capital Markets Sdn Bhd of 100% equity interest in SBB Securities Sdn Bhd	74.06	53.85	1.38
14 December 2009/ 9 April 2010	KNKH	CMS Trust Management Berhad	Acquisition of 100% equity interest in CMS Trust Management Berhad	23.00	13.63	1.69
29 September 2011/ 4 th quarter of 2012	RHB Capital Berhad	OSK	Proposed Acquisition of OSK Investment Bank Berhad	1,950.7	1,102.2	1.77
13 December 2011/ 3 May 2012	United Overseas Bank Ltd	Innosabah Securities Bhd	Proposed Acquisition of Innosabah Securities Bhd	57.30	0.83	1.36
10 April 2012/ 1 June 2012	HLCB	MIMB	Proposed Acquisition of MIMB	157.90^	157.90^	1.00
			Average			1.46
15 June 2012/ 4 th quarter of 2012	KNKH	ECMLIB	Proposed Disposal of ECMLIB - Consideration - Effective Consideration	875.11 828.69	687.72 687.72	1.27 1.20

(Source: Respective company announcements on Bursa Securities, circular to shareholders, annual reports and Bloomberg)

Notes:

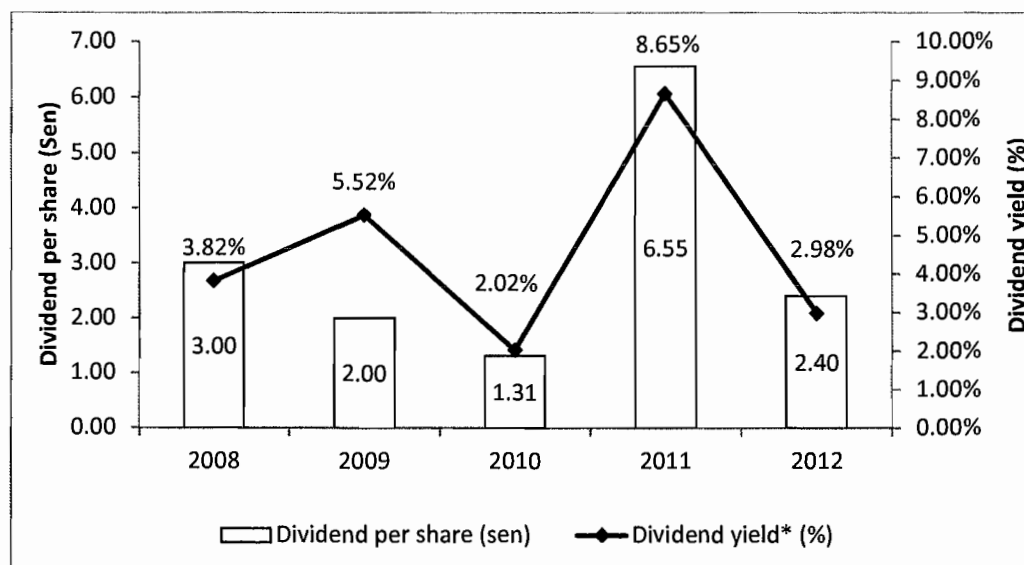
- @ Not applicable as the net assets value of certain assets and liabilities of SIBB was in a deficit position at the time of the acquisition. The premium paid over the net assets value was approximately RM65.2 million
- ^ Being the purchase consideration based on the unaudited NTA of MIMB and its subsidiary companies as at 31 July 2011
- # Being the purchase consideration based on the unaudited NTA of HLIB and its subsidiary companies as at 31 July 2011
- * Nominal value of RM2.00, being the adjusted unaudited NTA of HLIB after the completion of the business rationalisation and capital reduction exercise of HLIB

We note that the Implied PBR of ECMLIB of 1.27 times and 1.20 times based on the Consideration and Effective Consideration respectively are within the range of PBR of the Precedent Transactions of between 1.00 time to 2.10 times but below the average PBR of the Precedent Transactions of 1.46 times.

Notwithstanding this, the shareholders of ECMLFG should note that the Precedent Transactions may not be directly comparable to ECMLIB, and in assessing the Consideration pertaining to the Proposed Disposal due to various considerations such as prevailing economic and market conditions, franchise name, control premium, differences in capital structure, purchasers' assessment of the asset's strategic value in capturing market share, prevailing regulatory requirement and other relevant factors.

Premised on our evaluation in sections 4.4.2 and 4.4.3 above, we are of the opinion that the Consideration is **fair and reasonable**.

4.4.4 Dividend yield of the ECMLFG Group



(Source: Audited financial statements of ECMLFG)

Note:

* Based on the closing market price of ECMLFG Shares as at the end of each financial year

We note that the dividend payouts of ECMLFG have been in the range of 1.31 sen to 6.55 sen (inclusive of cash and share dividends of 4.25 sen in respect of the FYE 31 January 2011) for the past five (5) years up to FYE 31 January 2012, with gross dividend yields ranging from 2.02% to 8.65%, or an average of 4.60% per annum.

However, we wish to highlight that as mentioned under the rationale for the Proposals, given the challenging prospects of ECMLIB to continue operating as a stand-alone mid-size investment bank, the Group may pursue other different business opportunities. We note that this may potentially change the financial and risk profile of ECMLFG. Such strategies may require substantial cash investments which may then affect its free cash flow and future dividend payment capabilities.

Further, you should note that any dividends to be declared by the Company in respect of subsequent financial years are dependent upon, amongst others, the capital investment strategy, working capital requirements, future financial condition and the liquidity position of the ECMLFG Group as well as debt covenants attached to borrowings. Hence, moving forward, there is no assurance that ECMLFG will be able to maintain the dividend payouts similar to that in the past. In addition, we note that ECMLFG does not have a publicly stated dividend policy and the historical dividend payments may not necessarily reflect the future dividends to be paid, if any, by the Company.

Following the Proposals, the Entitled Shareholders will receive an immediate cash distribution and distribution-in-specie of KNKH Shares which is worth in aggregate RM0.68 for every ECMLFG Share based on the Minimum Scenario and RM0.63 for every ECMLFG Share based on the Maximum Scenario, based on the issued and paid-up share capital of ECMLFG as at the LPD and with the distribution with RULS (Series A), as shown in Section 4.1 of Part A of the Circular.

Hence, in view of the uncertainty of the ECMLIB Group's financial performance moving forward in the immediate and medium term, the Proposals represent an opportunity for you to realise part of your investment in ECMLFG and invest the cash proceeds arising therefrom, in other forms of investment which may generate a higher and more predictable income stream.

Premised on the foregoing, we are of the view that the Proposals are fair and reasonable.

4.5 Financial evaluation of the Consideration Shares

Pursuant to the Proposed Disposal, ECMLFG will receive, amongst others, 120,000,000 Consideration Shares in lieu of the Consideration which will be fully distributed to the Entitled Shareholders. As set out in Section 2.4 of Part A of the Circular, the issue price of the Consideration Shares of RM1.00 each was arrived at after taking into consideration the par value of the KNKH Shares of RM1.00 each. We take cognisance that the Board is of the opinion that the basis of determining the pricing of the Consideration Shares is fair and reasonable, after taking into account the following:

- (i) the Consideration Shares cannot be issued at lower than the par value of the KNKH Shares;
- (ii) overall, the Consideration Shares are being issued to settle RM120,000,000 out of a total consideration of RM875,114,000, representing approximately 13.71% of the Consideration (before any post-closing adjustment); and
- (iii) the minimal effect it has on the price-to-book as calculated in Section 2.3 of Part A of the Circular.

In evaluating the issue price of the Consideration Shares, we have adopted the trading comparable analysis by comparing the valuation statistics represented by KNKH Shares against the Comparable Companies as our primary basis/methodology in our evaluation.

In addition, for comparison, we have taken into consideration the following:

- (i) historical share price performance and trading liquidity of KNKH Shares;
- (ii) historical earnings and NA multiples of the KNKH Group; and
- (iii) dividend yield of the KNKH Group.

4.5.1 Trading comparable analysis

For purpose of evaluating the Consideration Shares, the above valuation methodology has been used as a primary basis and compared the PER and PBR represented by the Consideration Shares with the following:

- (a) PER of the Comparable Companies; and
- (b) PBR of the Comparable Companies.

The PER and PBR of the Comparable Companies (as tabulated in Section 4.4.1 (i) above) against that of the Consideration Shares are set out below:

Comparable Companies	PER (times)	PBR (times)
APX	8.81	0.39
ECMLFG [#]	22.53	0.71
HLCB	6.52	0.78
HDBS	7.25	0.75
KAF	10.34	0.87
OSK	24.86	0.91
PM	[^]	0.47
TA	11.37	0.62
Average	*13.10	[@] 0.69
Consideration Shares	80.00	0.81

Notes:

[^] *PER is not available as the company incurred losses during the financial year*

[#] *PER and PBR of ECMLFG are computed based on the last transacted market price as at the Last Trading Date of RM0.865 per ECMLFG Shares and based on the latest audited consolidated financial statements of ECMLFG for the FYE 31 January 2012*

^{*} *Based on the audited EPS of 1.25 sen for the FYE 31 December 2011*

[@] *Based on the audited NA per share of RM1.23 as at 31 December 2011*

From the above:

- (i) The implied PER represented by the Consideration Shares of 80.00 times is **higher** than the range of PER of the Comparable Companies of between 6.52 times and 24.86 times and **above** the average PER of 13.10 times of the Comparable Companies; and
- (ii) The implied PBR represented by the Consideration Shares of 0.81 times is **within** the range of PBR of the Comparable Companies of between 0.39 times and 0.91 times and **above** the average PBR of 0.69 times of the Comparable Companies.

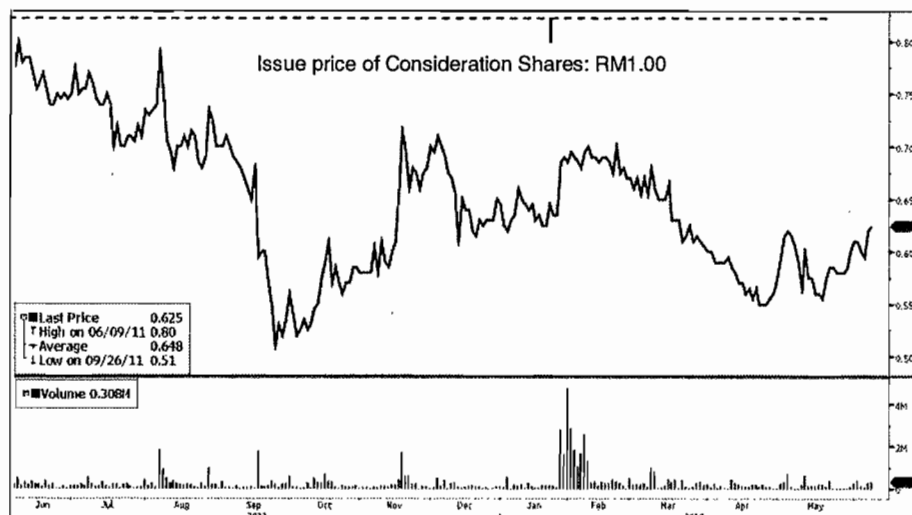
As such, from PER valuation perspective, the issue price of RM1.00 each for the Consideration Shares is **not fair**.

4.5.2 Historical share price performance and trading volumes of KNKH Shares

For comparison, we have also evaluated the Consideration Shares based on the historical share price performance and trading volumes of KNKH Shares for the past twelve (12) months up to the Last Trading Date as set out below.

(i) Market prices and trading volume of KNKH Shares

The movement of the historical share prices of KNKH Shares for the past twelve (12) months up to the Last Trading Date is depicted below:



(Source: Bloomberg)

Based on the chart above, KNKH Shares for the past twelve (12) months up to the Last Trading Date has been trading between RM0.51 to RM0.80 with an average price of RM0.65. Hence, the issue price of the Consideration Shares of RM1.00 is above all the traded closing prices for the past twelve (12) months up to the Last Trading Date.

We have also tabulated the premiums of the issue price of the Consideration Shares over the historical closing market prices and the respective VWAMPs of KNKH Shares over the past twelve (12) months up to the Last Trading Date set out as follows:

Up to the Last Trading Date	Market price (RM)	Premium of issue price over the VWAMP/market price	
		(RM)	(%)
Five (5)-day VWAMP	0.6332	0.3668	57.93
One (1)-month VWAMP	0.6118	0.3882	63.45
Three (3)-month VWAMP	0.6047	0.3953	65.37
Six (6)-month VWAMP	0.6568	0.3432	52.25
Twelve (12)-month VWAMP	0.6604	0.3396	51.42
Last transacted market price on Last Trading Date	0.6500	0.3500	53.85

Up to the Last Trading Date	Market price (RM)	Premium of issue price over the VWAMP/market price	
		(RM)	(%)
Last transacted market price on 11 June 2012 (being the LPD prior to despatch of this IAL)	0.6350	0.3650	57.48

(Source: Bloomberg)

We note that the issue price of the Consideration Shares represents a **premium** ranging from 51.42% to 65.37% over the periods of five (5)-day, one (1)-month, three (3)-month, six (6)-month, twelve (12)-month VWAMPs up to the Last Trading Date, last transacted market price on Last Trading Date and the LPD.

However, you should note that the above evaluation is intended for illustrative purposes only and is based on historical market prices of KNKH Shares, and has not taken into consideration any movement in the market prices of KNKH Shares subsequent to the LPD.

The monthly highest and lowest transacted market prices and trading volume of KNKH Shares for the past twelve (12) months to May 2012, being the month prior to the Last Trading Date are as follows:

	High* (RM)	Low* (RM)	Total monthly trading volume traded* (no. of Shares)	Monthly trading volume as % of free float (%)
<u>2011</u>				
June	0.83	0.74	7,327,000	3.67
July	0.78	0.70	3,708,500	1.86
August	0.80	0.65	7,224,700	3.62
September	0.73	0.51	4,680,300	2.34
October	0.62	0.51	3,662,800	1.83
November	0.73	0.56	5,060,900	2.53
December	0.74	0.61	2,537,100	1.27
<u>2012</u>				
January	0.71	0.62	11,387,700	5.70
February	0.71	0.66	14,555,700	7.29
March	0.70	0.60	5,675,700	2.84
April	0.62	0.54	2,755,400	1.38
May	0.62	0.55	4,012,500	2.01
Average			6,049,025	3.03

Note:

* Extracted from Bloomberg

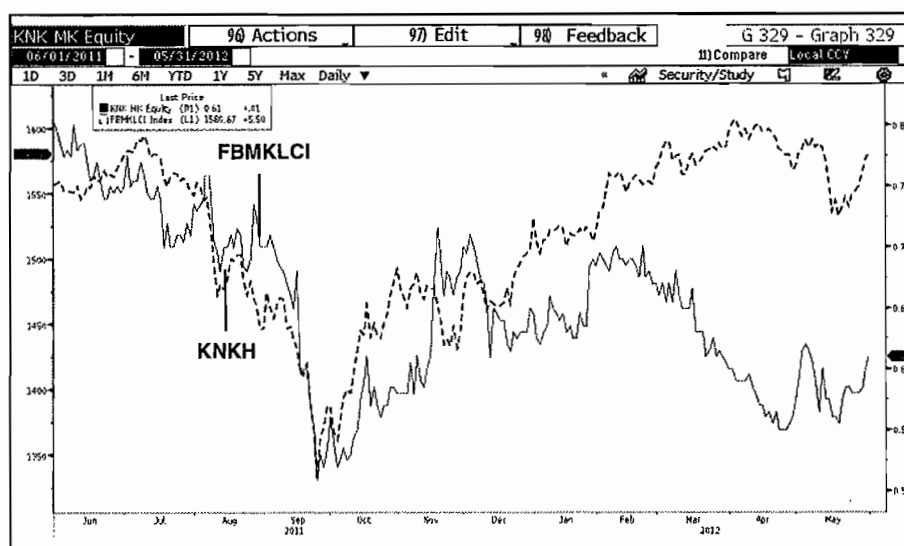
^ Free float is computed based on the issued and paid-up share capital of KNKH and excludes KNKH Shares held by substantial shareholders, directors of KNKH and their related parties as at LPD of 199,785,402

Based on the table above, the highest transacted market price of KNKH Shares was at RM0.83 in June 2011, whilst the lowest transacted market price was at RM0.51 in September and October 2011. As such, the Consideration Shares represent a premium based on the monthly highest and lowest transacted markets price of KNKH Shares for the past twelve (12) months up to May 2012, being the month prior to the Last Trading Date.

We also note that the average monthly trading volumes of KNKH Shares was only 6,049,025 KNKH Shares, representing 3.03% of the average free float of 199.79 million KNKH Shares. The enlarged KIBB group pursuant to the Proposed Business Merger may garner more interest from investors which consequentially may improve the trading liquidity of KNKH Shares.

(ii) Performance of KNKH Shares against the FBMKLCI Index

The performance of KNKH Shares against the FBMKLCI Index for the past twelve (12) months up to the Last Trading Date is depicted in the chart below:



(Source: Bloomberg)

We note that KNKH Shares have generally underperformed the FBMKLCI Index for the past twelve (12) months up to the Last Trading Date, whereby the share prices of KNKH have appreciated by 21.74% compared to FBMKLCI Index which appreciated by 65.38%. Furthermore, the total return¹ of KNKH Shares was 23.25% against the total return of the FBMKLCI Index of 83.42% during the same period.

¹ Total return is defined as the return on an investment, including income from dividends and interest, as well as appreciation or depreciation in the price of the security over a given time period

4.5.3 Historical earnings and NA multiples of the KNKH Group

For comparison, we have also considered the PER and PBR represented by the Consideration Shares against KNKH's trading PER and trading PBR for the past twelve (12) months up to the Last Trading Date.

4.5.3.1 Earnings multiple

The implied PER represented by the Consideration Shares ("**Consideration Shares PER**") and based on KNKH's audited financial statements for the FYE 31 December 2011 are as follows:

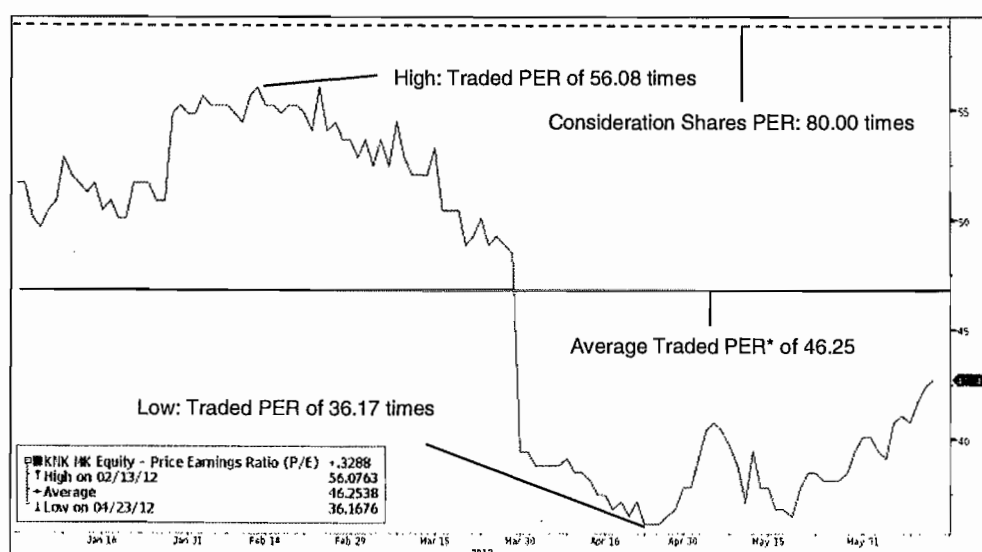
	Net EPS (sen)	Consideration Shares PER (times)
FYE 31 December 2011	1.25*	80.00

(Source: Audited financial statements of KNKH)

Note:

* Exclude losses from discontinued operations

We have compared the Consideration Shares PER based on the audited financial statements of KNKH for the FYE 31 December 2011 against KNKH's trading PER for the past twelve (12) months up to the Last Trading Date as set out below:



(Source: Bloomberg)

Note:

* Average Traded PER is derived based on the daily trading PER of KNKH for the past twelve (12) months up to the Last Trading Date, divided by twelve (12) months. Trading PER is calculated based on the last closing price of KNKH Shares over the trailing 12-month EPS of KNKH on a daily basis

Comments

As illustrated above, the Consideration Shares PER based on audited financial statements as at FYE 31 December 2011 of 80.00 times is **above** the range of KNKH's trading PER of 36.17 times and 56.08 times and **above** the average trading PER of 46.25 times for the past twelve (12) months up to the Last Trading Date.

For illustrative purposes only, the chart above indicates that historically, the market valued KNKH Shares **lower** than the issue price of the Consideration Shares based on the Consideration Shares PER based on the audited financial statements as at FYE 31 December 2011 of 80.00 times for the past twelve (12) months up to the Last Trading Date.

Premised on the above, we note that based on PER of KNKH Shares, the Consideration Shares are issued at a high valuation compared to the historical traded PER of KNKH Shares.

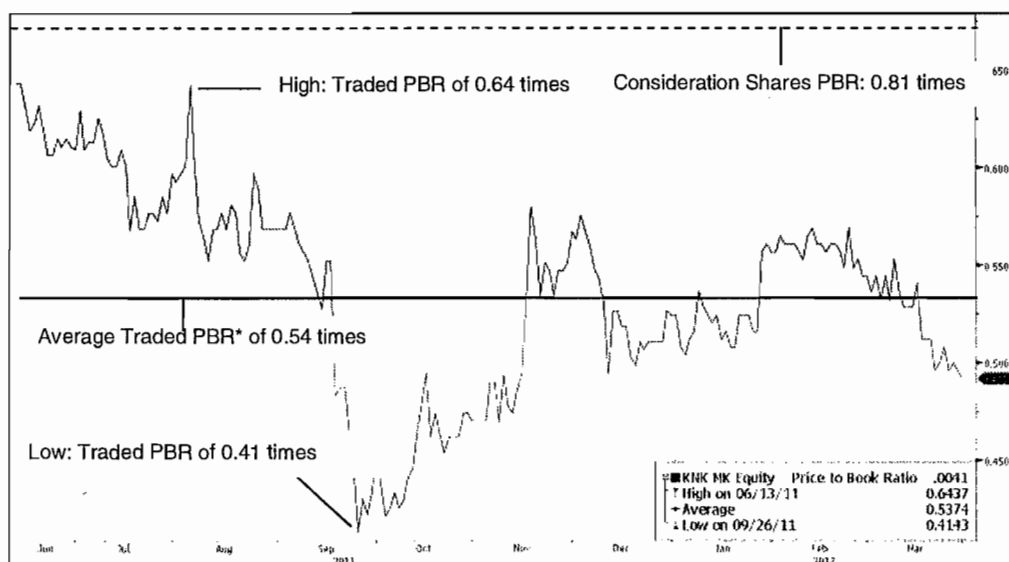
4.5.3.2 NA multiple

The implied PBR represented by the Consideration Shares and based on KNKH's audited NA per share as at 31 December 2011 ("**Consideration Shares PBR**") are as follows:

	NA per share (RM)	Consideration Shares PBR (times)
FYE 31 December 2011	1.23	0.81

(Source: Audited financial statements of KNKH)

We have compared the Consideration Shares PBR based on the audited financial statements of KNKH for the FYE 31 December 2011 against KNKH's trading PBR for the past twelve (12) months up to the Last Trading Date:



(Source: Bloomberg)

Note:

- * *Average Traded PBR is derived based on the daily trading PBR of KNKH for the past twelve (12) months up to the Last Trading Date, divided by twelve (12) months. Trading PBR is calculated based on the last closing price of KNKH Shares over the NA per share of KNKH on a daily basis*

Comments

As illustrated above, the Consideration Shares PBR based on the audited financial statements as at FYE 31 December 2011 of 0.81 times is **above** the range of KNKH's trading PBR of 0.41 times and 0.64 times and **above** the average trading PBR of 0.54 times for the past twelve (12) months up to the Last Trading Date.

This means that, historically, the market has valued KNKH Shares lower than the issue price of the Consideration Shares based on the Consideration Shares PBR as at FYE 31 December 2011 of 0.81 times for the past twelve (12) months up to the Last Trading Date.

Premised on the above, we note that based on PBR of KNKH Shares, the Consideration Shares are issued at a high valuation compared to the historical traded PBR of KNKH Shares.

Premised on the analysis as set out in Sections 4.5.2 and 4.5.3 above, it appears that the Consideration Shares attributable to the shareholders of ECMLFG pursuant to the Proposals is not fair in view of the following:

- (i) the issue price of the Consideration Shares of RM1.00 is **above** all the traded closing prices for the past twelve (12) months up to the Last Trading Date;
- (ii) the issue price of the Consideration Shares of RM1.00 is issued at a **premium** ranging from 51.42% to 65.37% over the periods of five (5)-day, one (1)-month, three (3)-month, six (6)-month, twelve (12)-month VWAPs up to the Last Trading Date, last transacted market price on Last Trading Date and the LPD;
- (iii) the share prices of KNKH Shares have **underperformed** the FBMKLCI for the past twelve (12) months up to the Last Trading Date; and
- (iv) the PER and PBR represented by the Consideration Shares are **above** the range of KNKH's trading PER and PBR respectively for the past twelve (12) months up to the Last Trading Date.

Accordingly, based on our overall analysis in Sections 4.5.1, 4.5.2 and 4.5.3 above, the issue price of the Consideration is **not fair**.

Nevertheless, we wish to highlight that the Consideration Shares cannot be issued any lower than the par value except in accordance with Section 59 of the Act which requires, amongst others the approval of the shareholders of the company, sanction by High Court and that an offer is to be made to every shareholder of the company of the said shares proportionately to the number of existing shares held by him/her.

In addition, you should note that the above evaluation is based on the historical market prices of KNKH Shares and hence, has not taken into consideration any movement in the market prices of KNKH Shares subsequent to the LPD or upon the completion of the Proposed Disposal.

It should also be noted that if the Proposed Disposal is not approved, you may lose the opportunity to enjoy future benefits, if any, that may arise from the performance of the enlarged KNKH Group. If the Proposals are approved and assuming that you are still a shareholder of ECMLFG on the Entitlement Date, apart from your existing holding of ECMLFG Shares, you will become a shareholder of KNKH and may participate in the future earnings of the enlarged KNKH Group, as well as enjoy the future prospects of the enlarged KNKH Group, including the potential synergies that are anticipated to arise from the enlarged KNKH Group. However, do note the future prospects of the enlarged KNKH Group are forward looking in nature and the potential synergies anticipated may take considerable time to achieve. Should the anticipated synergies do not materialize or not materialize entirely, the benefits arising from Proposed Business Merger may not be as promising.

You may also note that the issuance of the Consideration Shares only represents 13.71% and 9.22% of the Consideration and Effective Consideration respectively. Whilst the issue price of the Consideration Shares of RM1.00 each and the number of the Consideration Shares are not fair, based on our evaluation of the Effective Consideration after taking into account the market price of the Consideration Shares as set out in Section 4.4 of this IAL, the implied PER and PBR based on the Effective Consideration is higher than the PER and PBR of the Comparable Companies.

Premised on the above, we are of the view that issue price of the Consideration Shares of RM1.00 each is **reasonable**.

4.5.4 Dividend yield of the KNKH Group

	← FYE 31 December →				
	2007	2008	2009	2010	2011
Dividend per share (sen)	3.70	-	0.75	-	-
Gross dividend yield (%)	3.96	-	1.17	-	-

(Source: Audited financial statements of the Comparable Companies and KNKH)

Note:

* Based on the closing market price of KNKH Shares as at the end of each financial year

KNKH does not have a publicly stated dividend policy and we note that KNKH had only made dividend payments in FYE 31 December 2007 and FYE 31 December 2009 of 3.70 sen and 0.75 sen respectively, or a gross dividend yield of 3.96% and 1.17% respectively. There was no dividend payment in FYE 31 December 2008 and FYE 31 December 2010 mainly due to losses incurred during the said financial years. It is also noted that there was no dividend payment in FYE 31 December 2011, which could be due to a marginal earnings of RM12.08 million (excludes discontinued operation) during the financial year.

You should note that any dividends to be declared by KNKH in respect of subsequent financial years are dependent upon, amongst others, the capital investment strategy, working capital requirements, future financial condition, and liquidity position of KNKH arising from the Proposed Business Merger as well as debt covenants attached to borrowings.

4.6 Distribution of the Consideration to the Entitled Shareholders

As mentioned in Section 4 of Part A of the Circular, the distribution of the Consideration will be carried out by ECMLFG via the Proposed Capital Repayment which involves a capital repayment by ECMLFG to the Entitled Shareholders of:

- (i) a cash distribution of RM442,647,000;
- (ii) distribution-in-specie of 120,000,000 KNKH Shares; and
- (iii) distribution-in-specie of RM47,750,000 nominal value of RULS (Series A)

at a date to be determined later.

For illustration purposes, based on the issued and paid-up share capital of ECMLFG as at the LPD of 830,901,953 ECMLFG Shares, the distribution to the Entitled Shareholders of ECMLFG based on the Minimum Scenario and Maximum Scenario will be as follows:

	Minimum Scenario		Maximum Scenario	
	RM'000	RM per share*	RM'000	RM per share**
Cash distribution	442,647	0.53	442,647	0.49
Distribution-in-specie of KNKH Shares	76,200 [#]	0.09	76,200 [#]	0.09
Distribution-in-specie of RULS	47,750	0.06	47,750	0.05
	566,597	0.68	566,597	0.63

Notes:

* Based on issued and paid-up share capital of ECMLFG as at the LPD of 830,901,953 shares and after cancellation of existing treasury shares amounting to 2,082,862 shares

** Based on issued and paid-up share capital of ECMLFG as at the LPD of 830,901,953 shares and after cancellation of existing treasury shares amounting to 2,082,862 shares and assuming all the 72,512,000 ESOS Options outstanding as at the LPD are exercised prior to the Proposals

[#] The KNKH Shares are valued at RM0.635 per KNKH Share based on the closing price as at the LPD. Entitled Shareholders will receive approximately 144 KNKH Shares for every 1,000 ECMLFG Shares held at the Entitlement Date (Minimum Scenario); or approximately 133 KNKH Shares for every 1,000 ECMLFG Shares held at the Entitlement Date (Maximum Scenario)

For illustrative purposes, the financial position in capital value of an Entitled Shareholder who holds 1,000 ECMLFG Shares before and after the Proposals is set out below.

	Estimated net worth		
	Before the Proposals	After the Proposals	
	(RM)	Minimum Scenario (RM)	Maximum Scenario (RM)
ECMLFG Shares	840 ⁽¹⁾	156 ⁽²⁾	212 ⁽²⁾
Cash distribution	-	534	491
Distribution-in-specie of KNKH Shares ^{(3) (4)}	-	92	85
Distribution-in-specie of RULS ⁽⁵⁾	-	58	52
Capital value	840	840	840

Notes:

(1) The ECMLFG Shares are valued at RM0.84 per share based on the closing price as at the LPD

(2) Computed based on the following formula:

$$P \times R \times 1,000$$

Where,

P: Theoretical market price of ECMLFG Shares after the Proposals where for illustrative purposes, it is calculated at RM0.49 under Minimum Scenario; or RM0.57 under the Maximum Scenario as shown in Section 4.3 of Part A of the Circular

R: Being the ratio of the consolidated shares after the Proposed Capital Restructuring over the existing ECMLFG Shares as computed below:

Minimum Scenario	Maximum Scenario
262,222,000/ 828,819,000	334,734,000/ 901,331,000
= 0.3164	= 0.3714

(3) Represents approximately 144 KNKH Shares for every 1,000 ECMLFG Shares held at the Entitlement Date (Minimum Scenario); or approximately 133 KNKH Shares for every 1,000 ECMLFG Shares held at the Entitlement Date (Maximum Scenario)

(4) The KNKH Shares are valued at RM0.635 per KNKH Share based on the closing price as at the LPD

(5) Based on RM47,013,296, i.e. the net present value of RM47,750,000 nominal value of RULS (Series A) computed using the discounted cash flow method of valuation based on a discount rate of 6.7% per annum. We have adopted the said discount rate of 6.7% based on the derived yield-to-maturity of a 1-year A3 rated bond, being of a similar rating to KNKH of A3/P1 (Source: Rating Agency Malaysia Credit Rating Rationale, February 2012)

Based on the above, should you vote in favour of the Proposed Disposal, there is no change to your financial position under the Minimum Scenario and the Maximum Scenario. You should also note that the RULS carries an interest of 5% per annum, payable semi-annually in cash which is higher than the average gross dividend yield of 4.60% per annum for ECMLFG Shares for the past five (5) years up to FYE 31 January 2012 as set out in Section 4.4.4 of this IAL. In addition, the cash proceeds to be received from the Proposed Capital Repayment can be invested into other forms of investments which may generate higher returns.

You are advised to closely monitor the market prices of ECMLFG Shares and KNKH Shares and evaluate the distribution of the Consideration in terms of capital value before arriving at a decision as to whether to vote in favour of or against the Proposed Capital Repayment. This is especially important given the current volatility of the stock market.

In addition, we wish to highlight that Entitled Shareholders will not receive the RULS in the event the approval from the SC for the issuance of the RULS or the exemption by the SC to allow for a one-time transfer of the RULS from ECMLFG to the Entitled Shareholders is not obtained. However, your financial position in capital value remains unchanged as shown below.

For illustrative purposes, the financial position in capital value of an Entitled Shareholder who holds 1,000 ECMLFG Shares before and after the Proposals (assuming there is no distribution of RULS (Series A)) is set out below.

	Estimated net worth		
	Before the Proposals (RM)	After the Proposals Minimum Scenario (RM)	Maximum Scenario (RM)
ECMLFG Shares	840	214 ⁽¹⁾	264 ⁽¹⁾
Cash distribution	-	534	491
Distribution-in-specie of KNKH Shares	-	92	85
Capital value	840	840	840

Note:

(1) Computed based on the following formula:

$$P \times R \times 1,000$$

Where,

P: Theoretical market price of ECMLFG Shares after the Proposals (without distribution of RULS (Series A)) where for illustrative purposes, it is calculated at RM0.57 under Minimum Scenario; or RM0.62 under the Maximum Scenario as shown in Section 4.3 of Part A of the Circular

R: Being the ratio of the consolidated shares after the Proposed Capital Restructuring over the existing ECMLFG Shares as computed below:

$$\begin{aligned} &\text{Minimum Scenario} \\ &309,972,000 / 828,819,000 \\ &= 0.3740 \end{aligned}$$

$$\begin{aligned} &\text{Maximum Scenario} \\ &382,484,000 / 901,331,000 \\ &= 0.4244 \end{aligned}$$

You may wish to note that the Proposals do not represent a privatisation exercise of ECMLFG where in such an exercise, the proceeds received from the disposal of the company's business and undertakings will be entirely distributed to the shareholders which is deemed as an 'exit offer' and the company is subsequently delisted. As it is the intention of the Board to maintain the listing status of ECMLFG, you will continue to hold ECMLFG Shares after the Proposals and as such you will be able to enjoy future benefits, if any, that may arise from the performance of the ECMLFG Group after the Proposals premised on the future plans and prospects of ECMLFG Group as described in Section 4.9.1 of this IAL as well as any potential benefits arising from the utilisation of cash received by the Company upon redemption of the RULS, which may include payment of dividend and/or to finance future investments. However, this will be dependent upon, amongst others, the capital investment strategy, working capital requirements, future financial condition and liquidity position of the ECMLFG Group at the material time.

It should also be noted that apart from your holding of ECMLFG Shares, you will hold KNKH Shares and hence, you will have the opportunity to participate in the future earnings of the enlarged KNKH Group (which includes the business of ECMLIB), as well as enjoy the future prospects of the enlarged KNKH Group as described in Section 4.9.2 of this IAL.

4.7 Financial effects of the Proposals

The financial effects of the Proposals are set out as follows:

4.7.4 Share capital

The Proposed Disposal will not have any effect on the issued and paid-up share capital of ECMLFG.

Assuming the distribution of RULS (Series A) to the Entitled Shareholders is implemented, the issued and paid-up share capital of ECMLFG will be reduced from RM830.90 million comprising 830.90 million ECMLFG Shares to RM262.22 million comprising 262.22 million ECMLFG Shares (Minimum Scenario) or RM334.73 million comprising 334.73 million ECMLFG Shares (Maximum Scenario) upon the completion of the Proposed Capital Restructuring.

Assuming that there is no distribution of RULS (Series A) to the Entitled Shareholders is implemented, the issued and paid-up share capital of ECMLFG will be reduced from RM830.90 million comprising 830.90 million ECMLFG Shares to RM309.97 million comprising 309.97 million ECMLFG Shares (Minimum Scenario) or RM382.48 million comprising 382.48 million ECMLFG Shares (Maximum Scenario) upon the completion of the Proposed Capital Restructuring.

4.7.5 Substantial shareholders' shareholdings

The Proposed Disposal will not have any effect on the substantial shareholders' shareholdings in ECMLFG.

The Proposed Capital Repayment will not have any effect on the shareholding percentage of the substantial shareholders in ECMLFG as the reduction of ECMLFG's share capital will be effected via a proportionate reduction of the par value of all ordinary shares of ECMLFG.

The Proposed Share Split and Proposed Share Consolidation will not have any effect on the substantial shareholders' shareholdings on ECMLFG, save for the effects arising from the exercise of all the outstanding ESOS options as at LPD.

4.7.6 Earnings

The Proposed Disposal is expected to reduce the consolidated earnings and EPS of ECMLFG for the FYE 31 January 2013 as the ECMLFG Group is expected to realise a loss of RM48.3 million arising from the Proposed Disposal assuming that it had been effected on 31 January 2012. On a proforma basis based on the audited consolidated financial statements of ECMLFG for the FYE 31 January 2012 and on the assumption that the Proposed Disposal had been effected on that date, the loss amount is translated to a loss per share of 2.02 sen (Minimum Scenario) or a loss per share of 1.86 sen (Maximum Scenario). The loss from the Proposed Disposal is due to the write-off of intangible assets and the effects of mark-to-market of the Consideration Shares, partially negated by a realised gain on available-for-sale securities and other assets.

The Proposed Capital Restructuring is not expected to have any material effect on the earnings of the ECMLFG Group for the FYE 31 January 2013.

Upon completion of the Proposed Disposal, the consolidated earnings of ECMLIB Group will no longer be consolidated as part of the ECMLFG Group moving forward.

However, assuming coupon received from the remaining RULS and the cash sum of the Consideration (after the Proposed Capital Repayment) is placed in an interest-bearing deposit account with a licensed financial institution at an interest rate of 3.0% per annum, ECMLFG will derive a net interest income (after taxation) of RM4.9 million per annum or a proforma consolidated EPS of 1.88 sen based on the Minimum Scenario and 1.47 sen based on the Maximum Scenario.

4.7.7 NA, NTA and gearing

- (i) Assuming that the Proposed Disposal and Proposed Capital Restructuring had been effected on 31 January 2012:
 - Minimum Scenario: NA per share of ECMLFG will increase from RM1.23 to RM1.33 (with distribution of RULS (Series A)) or RM1.28 (without distribution of RULS (Series A)); and its NTA per share will increase from RM0.88 to RM1.33 (with distribution of RULS (Series A)) or RM1.28 (without distribution of RULS (Series A)); or
 - Maximum Scenario: NA per share of ECMLFG will increase from RM1.23 to RM1.25 (with distribution of RULS (Series A)) or a slight reduction to RM1.22 (without distribution of RULS (Series A)); and its NTA per share will increase from RM0.88 to RM1.25 (with distribution of RULS (Series A)) or RM1.22 (without distribution of RULS (Series A)).

- (ii) Assuming that the Proposed Disposal and Proposed Capital Restructuring had been effected on the LPD:
- Minimum Scenario: NA per share of ECMLFG will increase from RM1.23 to RM1.30 (with distribution of RULS (Series A)) or RM1.26 (without distribution of RULS (Series A)); and its NTA per share will increase from RM0.88 to RM1.30 (with distribution of RULS (Series A)) or RM1.26 (without distribution of RULS (Series A)); or
 - Maximum Scenario: NA per share of ECMLFG will remain at RM1.23 (with distribution of RULS (Series A)) or slightly reduced to RM1.20 (without distribution of RULS (Series A)); and its NTA per share will increase from RM0.88 to RM1.23 (with distribution of RULS (Series A)) or RM1.20 (without distribution of RULS (Series A)).

As at LPD, the gearing ratio of ECMLFG is nil. Hence, the Proposed Disposal and Proposed Capital Restructuring will have no bearing on the gearing ratio of ECMLFG.

The Proposed Business Merger will not have any bearing on the issued and paid-up share capital, substantial shareholders' shareholdings, consolidated earnings, consolidated NA per share and NTA per share and consolidated gearing of ECMLFG as it will be implemented after completion of the Proposed Disposal and which forms part of the internal restructuring of KIBB.

Based on the above, we are of the opinion that the financial effects of the Proposals on the share capital, substantial shareholders' shareholdings of the Company, as well as the NA, NTA and gearing of the Group, taken as a whole, are not detrimental to the interest of the non-interested shareholders of ECMLFG, except that the Group will record a loss per share of 2.02 sen or 1.86 sen based on the Minimum Scenario and the Maximum Scenario respectively.

4.8 Economic outlook and prospects and industry overview, outlook and prospects

4.8.1 Outlook and prospects of the Malaysian economy

Amid the more challenging external environment, Malaysia's economy is projected to experience a steady pace of growth of 4 – 5% in 2012. Domestic demand is expected to remain resilient and will continue to be the anchor for growth. Several measures that were announced in the 2012 Budget are expected to provide support to private consumption. These include the upward revision of public sector wages and the one-off financial assistance to low and middle-income groups. Private investment will be supported by domestic-oriented industries and the ongoing implementation of projects under the ETP. The public sector will remain supportive of growth in 2012, with higher capital expenditure by both the Federal Government and the non-financial public enterprises. The implementation of the Special Stimulus Package through Private Financing Initiative that was announced in the 2012 Budget would provide further impetus to real activity during the year.

On the supply side, most sectors will continue to expand in 2012. Nevertheless, the slower growth in global demand may adversely affect export-oriented industries in the manufacturing sector as well as trade-related industries in the services sector. The performance of domestic oriented industries, on the other hand, is expected to remain firm, benefiting from resilient domestic demand conditions. In particular, the construction sector is projected to record a stronger growth, supported by the implementation of major infrastructure projects and the Special Stimulus Package. Growth in the mining sector is also expected to strengthen. However, the agriculture sector is likely to register a more moderate growth mostly on account of lower growth of both palm oil and natural rubber following the strong performance seen in 2011.

The GDP growth projection of between 4 – 5% in 2012 is premised upon the expectation of a moderation in global growth and the timely and full implementation of measures announced in the 2012 Budget. Several risks, however, remain. These risks include an escalation in the Eurozone sovereign debt crisis and much slower growth in our major trade partners. Should growth in the advanced economies turn out to be stronger than expected, there is some upside potential to domestic growth in 2012. It should also be noted that the authorities have sufficient policy flexibility to support the domestic economy and respond to global developments.

(Source: BNM Annual Report 2011)

Comments

The Malaysian economy is expected to continue to record a steady growth underpinned by a resilient domestic economy. Barring unforeseen circumstances, we are of the opinion that the Malaysian economy will augur well given the various supportive measures introduced by the Government such as upward revision of public sector wages and one-off financial assistance to low and middle-income groups, as well as investment by the private sector with the ongoing implementation of ETP and public sector and non-financial public enterprises to continually support the domestic economy.

However, there are several risks, which may have a negative impact, to a certain extent, on the Malaysian economy which includes, the Eurozone sovereign debt crisis and much slower growth in Malaysia's trade partners.

4.8.2 Overview of the banking and financial services sector in Malaysia

The MGS market was significantly influenced by external factors. While MGS yields increased in the first four months of the year, they subsequently reversed to chart a downward trend following strong non-resident inflows. Conditions in the domestic PDS market also evolved favourably, as market liquidity and credit conditions improved.

The FBMKLCI increased by 0.8% to close at 1,530.7 in 2011 (2010:19.3%). Domestic equity prices rose in the first half of 2011 on strong domestic fundamentals, but underwent a correction in the second half year. The FBMKLCI stabilised in late-September and gradually recovered as investors reacted positively to the improvement in global growth prospects following measures undertaken in the advanced economies to stabilise international financial markets.

The services sector recorded strong growth of 6.8% in 2011 (2010: 6.8%), amid firm domestic demand. The sector remained the largest contributor to growth, accounting for 3.9 percentage points of overall GDP growth. The finance and insurance sub-sector grew by 5.9% (2010: 6.4%), following strong performance in bank lending and increased collection of insurance premiums. Total loans outstanding in the banking system were higher by 13.6% in 2011 (2010: 12.7%), reflecting strong demand for financing by both households and businesses.

(Source: BNM Annual Report 2011)

For the year as a whole, the banking sector continued to sustain healthy capitalisation levels and profitability on account of higher interest/financing income, lower impairment charges and higher fee-based income. The aggregate risk-weighted capital ratio and core capital ratio for the banking system stood at 15.1% and 13.2% respectively, well above the current regulatory minimum as well as the more stringent standards under Basel III. The insurance and takaful sectors experienced lower profitability due to lower investment returns as a result of the volatile market conditions, and higher claims and benefits paid. The impact on the capitalisation level of the industry was, however, not material with the capital adequacy ratio declining only marginally and sustained at a strong level of 222.5%. Stress tests conducted by BNM, which assume adverse scenarios of domestic economic contraction, further affirm the resilience of Malaysian financial institutions.

With strong fundamentals of the financial sector well entrenched, priorities in the financial sector development in 2011 were focused on reinforcing Malaysia's long-term growth potential by strengthening the capacity of the sector in intermediating funds for new growth areas and enhancing Malaysia's regional and international financial linkages, with appropriate safeguards to preserve financial stability. The strategies to achieve this have been set out under the Financial Sector Blueprint (the "**Blueprint**") which was released by BNM in December 2011. The Blueprint charts the future direction of the Malaysian financial system in the next 10 years and builds on the achievements of the first Financial Sector Masterplan to position the financial sector to assume an enhanced role in supporting Malaysia's transformation towards becoming a high value-added, high-income economy.

The market structure of the financial industry continued to strengthen during the year with the emergence of stronger and more competitive banking groups and insurers as a result of mergers and acquisitions. The Competition Act 2010, which came into effect on 1 January 2012, further reinforces the competitive environment in the financial sector and complements BNM's efforts to enhance consumer protection in Malaysia.

(Source: Financial Stability and Payment Systems Report 2011 issued by BNM)

Comments

As a whole, the banking sector in 2011 remained relatively resilient given the healthy capitalisation levels and profitability on account of higher interest/financing income, lower impairment charges and higher fee-based income. The Financial Sector Blueprint which was released by BNM in December 2011 imputes an enhanced role for the financial sector in the midst of Malaysia's transformation to become a higher value-added, high income economy.

Overall, the market structure of the financial services sector continued to strengthen with increasing competition given the emergence of stronger and more competitive banking groups and insurers during 2011, coupled with the introduction of the Competition Act 2010.

4.8.3 Outlook and prospects of the banking and financial services sector in Malaysia

In 2012, most sectors are expected to continue to grow but at a more moderate pace as the uncertain global outlook is expected to weigh on industries directly exposed to external demand. The services sector is projected to continue to drive growth in 2012. Growth will be supported by consumer-related sub-sectors, which is likely to cushion the effects of slower trade-related activity during the year. Growth in the finance and insurance sub-sector is expected to remain firm, supported by bank lending activity.

(Source: BNM Annual Report 2011)

It is envisioned that in the next ten years, the Malaysian financial sector will increasingly be intermediating domestic, regional and international financial resources and contributing to the efficient allocation of resources not only in the domestic economy but also across borders. Within this decade, the financial system (*proxied by loans outstanding, equity market capitalisation and bonds outstanding*) is expected to grow at an annual rate of 8-11%, increasing the depth of the financial system to six times of GDP in 2020 (2010: 4.3 times of GDP). Correspondingly, the financial sector contribution to nominal GDP in 2020 is expected to increase to 10-12% (2010: 8.6%). The contribution of financial institutions is also expected to strengthen, with assets of the banking sector rising to almost three times of GDP by 2020 (2010: 2.4 times of GDP).

(Source: Financial Sector Blueprint 2011-2020)

Comments

Despite the Malaysian economy is projected to grow at a moderate pace in 2012, the finance and insurance sub-sector is expected to remain resilient on the back of banking lending activity to the consumer-related subsectors. Moving forward, the Malaysian financial sector is expected to grow further and the contribution of financial institutions is expected to strengthen. Based on the above, the Malaysian financial sector will be contributing to the domestic, regional as well as international financial resources.

4.8.4 Overview of the securities and stockbroking industry and investment banking industry in Malaysia

The Malaysian capital market was among the fastest growing segments of the Malaysian economy and recorded 10.6% growth annually from 2001–2011; expanding from RM773 billion to RM2.12 trillion at end 2011 with strong growth across certain market segments namely debt securities, investment management and the Islamic capital market. The significant growth was a result of increased efficiencies and competitiveness arising from deregulation and liberalisation, lower friction cost, greater economies of scale and expanded distribution channels.

The capitalisation of the Malaysian equity market expanded by 0.78% in 2011 to reach RM1.285 trillion. Shariah compliant securities accounted for RM806.4 billion (i.e. 62.8%) of this market. Overall average trading activity rose in 2011 with a daily average trading volume of 1.34 billion units, an increase of 31.6% from a year earlier.

About 81.6% of securities listed on Bursa Securities are held by domestic investors, with nominees, corporations and individuals accounting for the highest proportion of ownership. Out of the 18.4% stake held by foreign investors, nominees and corporations account for the bulk of the holdings, i.e. 17%, with the remaining 1.4% held by foreign individuals, investment houses and other investors.

Total equity funds, rights issues and warrants raised was RM12.62 billion in 2011. However, this is significantly lower than the 2010 aggregate issuance of RM32.14 billion, which is congruent with a general slowdown in IPO activity worldwide, as companies deferred listings in the face of market uncertainty. There were 28 IPOs worth RM7.38 billion in 2011, accounting for 58.9% of funds raised via the equity market.

Domestic stock prices were relatively resilient despite continuing uncertainties in the global financial market. The FBMKLCI ended the year at 1,530.73 points with a year-to-date change of 0.8%. Despite weaker global stock market performance as well as a slowdown in the domestic market, the FBMKLCI managed to end the year on a stable note, having risen 11 points from its 2010 close of 1,518.91. Although growth was marginal, the FBMKLCI still outperformed the MSCI Emerging Asia Index and MSCI World Index during 2011, when both indices fell by 19% and 8% respectively. Equity market volatility rose in the second half of 2011, peaking in October 2011 in tandem with heightened turmoil in the Eurozone. It was, however, lower than during the crisis period in 2008 and relatively lower than most emerging markets.

The stress level in the Malaysian stock market, measured against volatility, price impact, market illiquidity and financial sector resilience, was lower in 2011 compared to the past two years. The stress level rose briefly during the year due to uncertainties regarding the global economy. Overall, the reduced volatility, stability in the financial markets and improved market liquidity contributed to the lower stress levels in the stock market.

(Source: Securities Commission Annual Report 2011)

Comments

The securities and stockbroking industry and investment banking industry in Malaysia have gone through significant growth during the last ten (10) years. This was mainly attributed to increased efficiencies and competitiveness arising from deregulation and liberalisation, lower friction cost, greater economies of scale and expanded distribution channels.

The Malaysian equity market was relatively resilient given the lower level of volatility than most emerging markets. Overall, the reduced volatility, stability in the financial markets and improved market liquidity contributed to the lower stress levels in the stock market in Malaysia in 2011.

4.8.5 Outlook and prospects of the securities and stockbroking industry and investment banking industry in Malaysia

Investor sentiments leading into 2012 will be influenced by economic performance, valuation and liquidity in the capital markets. The deleveraging process of European banks and further fiscal austerity measures amidst the European sovereign debt crisis are also factors which may affect investors' expectations.

The equity market is expected to remain sensitive to any major adverse external development. However, domestic developments are likely to have a positive impact on sentiments. Listing activity is expected to pick up in tandem with positive domestic economic fundamentals. The operationalisation of Capital Market Masterplan 2 initiatives, such as the Private Retirement Scheme framework, could act as a catalyst for increased investor participation.

Overall, the outlook for the Malaysian capital market appears to be broadly favourable. While the real economy and financial markets may be influenced by external uncertainties, domestic consumption and investment demand are expected to mitigate the downside risks and provide a positive impetus to the growth of the Malaysian capital market.

(Source: Securities Commission Annual Report 2011)

The proposed development of the financial services sector takes on a holistic approach that encompasses both financial institutions and financial markets, and it targets to raise Malaysia's total GNI by RM121.5 billion to RM180.2 billion and create 275,400 new jobs by 2020. Of this goal, RM28.8 billion is expected to be derived from 10 EPPs, RM72.0 billion from baseline growth and RM20.7 billion from the multiplier effect created by EPPs from other sectors. In addition, through the EPPs, 45,000 jobs will be created, with 56 per cent of them offering an average income of above RM4,000 per month.

The Financial Services NKEA has four key thrusts: strengthen the core; serve needs of a high income population; develop new sectors; and go on the offensive, from which a portfolio of EPPs has been identified to grow the sector's GNI contribution.

EPP 1 (Revitalising Malaysia's Equity Markets) seeks to resolve this by targeting the expansion of Bursa Securities' market capitalisation at a compounded annual growth rate of 15 per cent to RM3.9 trillion by 2020 from RM1 trillion in 2010. Liquidity, measured by trading velocity, is also targeted to improve from 31 per cent of total market capitalisation to 60 per cent, in line with regional averages. This EPP is expected to create incremental GNI of RM3.3 billion and 9,000 additional jobs by 2020.

Initiatives will be implemented to improve liquidity and scale in the market with greater focus on retail and institutional investor segments. To capture these segments, Bursa Securities will continue to diversify its Islamic and conventional product offering and also address structural issues that would help to spur investor participation in the market.

The outlook for investment banking is anticipated to remain positive with strong growth of 15 per cent per annum throughout 2010 to 2015, slowing to 10 per cent over 2016 to 2020. Incremental GNI impact is expected to be RM5.2 billion in 2020. Most of the GNI value is expected to be derived from baseline growth, with additional contribution from several business opportunities:

- Increase in IPOs due to a push for innovation under the Tenth Malaysia Plan
- Integration of capital markets (e.g. exploiting the advantage of Qualified Domestic Institutional Investor status with China and mutual recognition agreements with Hong Kong and Dubai)
- Increase in merger and acquisition activities due to expected consolidation in several key sectors

(Source: ETP Annual Report 2011, Jabatan Perdana Menteri)

Comments

Based on the above, the outlook for the Malaysian capital market appears to be broadly favourable. In Malaysia, domestic consumption and investment demand are expected to mitigate the downside risks and provide a positive impetus to the growth of the Malaysian capital market.

The financial services sector is expected to grow in tandem with the EPPs which was announced by the Government. On the back of this, the market capitalisation of Bursa Securities is expected to experience significant growth phase in line with Government's initiative to grow the sector's GNI contribution to the Malaysian economy. In addition, various initiatives will be implemented to improve liquidity and scale in the market with greater focus on retail and institutional investor segments.

The outlook for investment banking is anticipated to remain positive with strong growth based on baseline growth, additional contribution from the increase in IPOs due to a push for innovation under the Tenth Malaysia Plan, integration of capital markets and increase in merger and acquisition activities due to expected consolidation in several key sectors.

4.9 Outlook and prospects of ECMLFG Group and the enlarged KNKH Group

4.9.1 ECMLFG Group

The Group anticipates that the investment banking landscape will continue to remain challenging and competitive and as such, intends to exit the industry which the Proposed Disposal presents the opportunity to do so. Upon completion of the Proposed Disposal, ECMLFG will continue as an investment holding company and other activities namely, fund management, proprietary investments and money lending activities.

The Group's fund management business is undertaken by its wholly-owned subsidiary, Libra Invest Berhad ("**LIB**"). As at 31 May 2012, its assets under management stood at RM2.8 billion and ranked amongst the top 10 fund management companies in Malaysia. Based on the last audited financial statements of ECMLFG for FYE 31 January 2012, LIB contributed RM11.7 million in revenue and RM2.3 million in PBT. The Board believes there is growth potential in the fund management business and the Group has plans to grow this business through various initiatives identified under its business plan. In addition, the Group may also explore and undertake other strategic investments to enhance its earnings profile. This may include exploring and undertaking investments in private equity, real-estate and real-estate related investments.

(Source: Management of ECMLFG)

Comments

It is noted that in the past, ECMLIB Group has been the major contributor to the revenue and earnings of the Group. As such, with the Proposed Disposal, the financial performance of the Group, in the immediate term, will be adversely affected as the financial results of the ECMLIB Group will no longer be consolidated as part of the ECMLFG Group moving forward.

However, we note that after the Proposed Disposal, the Company will carry on as an investment holding company and will still have continuing operations, namely its fund management business, management of the Retained Assets (comprising securities and other investments) and money lending activities. It is expected that this will be the platform for the Company to maintain its listing status. We note that the fund management business contributed RM2.3 million in terms of PBT to the ECMLFG Group in the FYE 31 January 2012. It is expected that with the plans by the Group to grow its fund management business, the profits to be generated from the fund management business will improve over the medium to long term as such plans will take time to materialise. At the same time, the Group may also explore other strategic investments such as private equity, real-estate and real-estate related investments. Notwithstanding, there is no assurance that the relevant authorities will approve the said proposal by the Company to maintain its listing status and in such event, ECMLFG will fall under Practice Note 17 and would have to regularise its condition within the stipulated timeframe set out under the Listing Requirements. In the absence of the financial forecasts and projections of ECMLFG after the Proposals and definitive future business plans, we are unable to form a view on whether the remaining businesses of ECMLFG after the Proposed Disposal is adequate to justify maintaining the listing status.

4.9.2 Enlarged KNKH Group

The year 2011 was a year of rebuilding for KNKH Group. Under a new leadership, the management has put in place a new business strategy which involves major changes to its key businesses and capitalise on the key strengths of selected businesses namely equity broking, corporate advisory, treasury, fixed income, asset management and futures trading. These businesses will spearhead the Group's activities in 2012 to ensure sustainable and profitable growth.

(Source: Annual Report of KNKH for the FYE 31 December 2011)

The Proposed Disposal and Proposed Business Merger will enlarge the scale and size of the operations of the KNKH Group and allowed the enlarged entity to remain competitive in the fast changing and dynamic financial services industry, where consolidation is ongoing. The enlarged entity will benefit from:

- (i) A larger network of remisiers and dealers and access to five (5) new states within Malaysia which will improve its competitiveness in the brokerage business;
- (ii) Increase in number of branches from which will result in KIBB having one of the largest branch networks in Malaysia;
- (iii) Being among the top three (3) in terms of market share based on Bursa Securities 2011 and quarter one (1) 2012 Broker Ranking Report;
- (iv) Enhanced reputation as a market leader in the brokerage business;
- (v) Wider base for deal placement as well as deal sourcing for the investment banking businesses arising from an enlarged network;
- (vi) Larger customer base leading to greater opportunity and potential for cross selling of different products between divisions;
- (vii) Stronger research capabilities with extensive coverage of small, mid and large cap stocks for both retail and institutional clients; and
- (viii) Complementary strength in other products and services.

The above mentioned benefits are expected to strengthen the earnings potential of the enlarged KNKH Group and enhance value of KNKH's shareholders in the long term.

(Source: Announcement by RHB Investment Bank Berhad on behalf of KNKH dated 15 June 2012 in relation to the Proposals)

Comments

In assessing the prospects of the enlarged KNKH Group, we have taken into consideration the outlook and prospects of the Malaysian economy, the banking and financial services sector, the securities and stockbroking industry, and investment banking industry in Malaysia as stated above.

It is noted that after the Proposed Disposal, the businesses of KIBB and ECMLIB will be merged to create a larger entity. The enlarged KIBB Group will be in a better position to compete within the capital markets industry, which is highly competitive with a significant number of players of various sizes and with similar products/services offering. The larger entity will also be in a better position to capitalise on the expected growth in the Malaysian economy and capital market activities in the coming year.

Notwithstanding the above, it should be noted that the future prospects of the enlarged KNKH Group upon completion of the Proposed Disposal and Proposed Business Merger, will still be subject to the vagaries of the capital market and competition against the bank-backed investment banks. However, we are of the view that the Proposed Disposal and Proposed Business Merger will provide an impetus for growth for the enlarged KNKH Group.

4.10 Risk factors

In the event you decide to vote in favour of the Proposals, you should carefully consider the risk factors as set out in Section 7 of Part A of the Circular. In addition, you should also carefully consider the following additional risk factors. You should note that these risk factors are not exhaustive.

(i) Risk of downward adjustment to the Consideration

As set out in Section 2.7.9 of Part A of the Circular, the Consideration shall be adjusted after Closing to take into account the difference between the consolidated NTA of ECMLIB as at the Adjustment Date (plus the Loan Loss Reserve as at the Adjustment Date) and consolidated NTA of ECMLIB as at 31 January 2012 (plus the Loan Loss Reserve as at 31 January 2012) either as an increase or reduction to the Consideration.

Hence, there is a risk of ECMLFG receiving an amount lower than RM875,114,000 as a result of a downward adjustment to the Consideration where the consolidated NTA of ECMLIB (plus the Loan Loss Reserve) as at the Adjustment Date is lower than the consolidated NTA (plus the Loan Loss Reserve) of ECMLIB as at 31 January 2012. Nevertheless, any downward adjustment to the Consideration will not affect the distribution of cash under the Proposed Capital Repayment.

(ii) Risk of no distribution of RULS (Series A) under the Proposed Capital Repayment

The distribution of RULS (Series A) is subject to the approval of the SC to allow for a one-time transfer of the said RULS to the Entitled Shareholders. However, there is no assurance that the said approval will be obtained. In the event the approval from the SC is not obtained, the RULS (Series A) will not be distributed and this would affect the Proposed Capital Repayment, where the amount to be repaid under the Proposed Capital Repayment would be reduced accordingly (as further detailed in Section 4.6 of this IAL).

(iii) Listing status of ECMLFG pursuant to the Proposals

Upon completion of the Proposed Disposal, ECMLFG may trigger one of the criteria prescribed by Bursa Securities as set out in Practice Note 17 of the Listing Requirements and as such, may be classified as an affected listed issuer pursuant to Paragraph 8.04(2) of the Listing Requirements. Should ECMLFG falls under Practice Note 17 of the Listing Requirements, the Company would have to regularise its condition as an affected listed issuer within the stipulated timeframe set out under the Listing Requirements.

We note that the Board intends to self regularise and maintain the listing status of ECMLFG after the Proposals whereby the Company will carry on as an investment holding company and will still have its fund management business held through its wholly-owned subsidiary, LIB and the management of the Retained Assets (comprising securities and other investments). In addition, ECMLFG has other subsidiaries involved in the investment advisory, provision of research services and provision of credit services business. It is also noted that the Group has plans to grow its fund management business and may also explore and undertake other strategic investments to enhance its earnings portfolio.

However, we wish to highlight that should Bursa Securities rejects the Company's self regularisation proposal or the Company fails to implement a regularisation plan within the timeframe stipulated by the relevant authorities (in the event ECMLFG is classified as an affected listed issuer under Practice Note 17 of the Listing Requirements), ECMLFG may face the risk of its listed securities being suspended from trading on Bursa Securities and/or being delisted from the Official List of Bursa Securities.

5. DIRECTORS' RESPONSIBILITY STATEMENT

The Board has seen and approved the contents of this IAL. They have collectively and individually accepted full responsibility for the accuracy of the information contained in this IAL whereby the responsibility of the Board in respect of:

- (iii) the information on KNKH Group in this IAL is limited to ensure that such information is accurately reproduced in this IAL; and
- (iv) the independent advice and expression of opinion by Affin Investment in relation to the Proposed Disposal as set out in Part B of this Circular is limited to the accuracy of the information in relation to the ECMLFG Group that were provided to Affin Investment for its evaluation of the Proposals and to ensure that all information in relation to the ECMLFG Group that are relevant to Affin Investment's evaluation of the Proposals have been accurately and completely disclosed to Affin Investment and that there are no material facts, the omission of which would make any information provided to Affin Investment false or misleading.

The Board has also confirmed that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no false and misleading statement or any facts, the omission of which would make any information or statement in this IAL and/or any information furnished by the Company to us incomplete, false, misleading or inaccurate.

6. FURTHER INFORMATION

You are advised to refer to Part A of the Circular and its enclosed appendices for further information on ECMLIB and KNKH.

7. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the factors which are deemed to have significant relevance to our assessment of the Proposals. You should consider carefully all the merits and demerits of the Proposals based on all relevant and pertinent factors including those which are set out above and other considerations as set out in this IAL, Part A of the Circular and any other publicly available information, prior to making a decision whether to vote in favour or to vote against the Proposals.

In arriving at our conclusion and recommendation, we have considered the reasonableness of the Proposals based on all relevant and pertinent factors including those which are set out above and highlighted below:

Quantitative aspects

(a) Financial performance of the ECMLFG and KNKH Group

(i) ECMLIB Group

Revenue of the ECMLIB Group has been fluctuating over the financial years under review as it is subject to the volatility arising from fluctuating market sentiment. As a result, PBT showed a similar fluctuating trend. For FYE 31 January 2012, ECMLIB Group recorded a drop in revenue and PBT by 20% and 39% respectively from the preceding financial year. The lower revenue and PBT was mainly due to a decline in non-interest income by 41.13% from the preceding financial year and lower gain arising from securities available-for-sale of RM11.75 million as compared to RM67.52 million in the preceding financial year.

(ii) ECMLFG Group

Revenue for the ECMLFG Group has been inconsistent over the last five (5) years up to FYE 31 January 2012, which was determined by the performance and trading volumes of Bursa Securities due to contribution from the stockbroking business. As a result, PBT during the periods under review has also shown a similar fluctuating trend. During the periods under review, its PBT has decreased from RM80.69 million in FYE 31 January 2008 to RM53.76 million in FYE 31 January 2012, representing a decrease of 33.37% although its revenue has increased from RM157.55 million to RM178.29 million during the same period. The earnings during the periods under review were driven mainly by treasury and capital market operations and followed by investment banking and structured financing.

(iii) **KNKH Group**

We note that revenue for the KNKH Group has decreased from RM308.37 million in FYE 31 December 2007 to RM276.91 million in FYE 31 December 2011, whilst its PBT has also decreased from RM134.06 million to RM14.87 million during the same periods under review. We note that this is in part due to impairment on loans and advances recorded during the said financial years.

However, it is noted that the performance of KNKH Group for the FYE 31 December 2011 showed signs of improvement as can be seen from the PBT recorded during the year as compared to a loss before tax in the preceding financial year.

Premised on the above, we are of the view that the Proposals are **fair and reasonable**.

(b) **Financial evaluation of the Consideration**

▪ **Trading comparable analysis**

▪ **PER and PBR of Comparable Companies**

The Implied PER derived based on the Consideration and Effective Consideration of 28.82 times and 27.22 times respectively are **above** the PER range of the Comparable Companies and **above** the average PER of the Comparable Companies of 12.53 times.

The Implied PBR derived based on the Consideration and Effective Consideration of 1.27 times and 1.20 times respectively are **above** the PBR range of the Comparable Companies and **above** the average PBR of the Comparable Companies of 0.65 times.

▪ **ROA and ROE of ECMLIB**

The ROA and ROE of ECMLIB of 1.12% and 4.42% respectively based on the latest audited financial statements for the FYE 31 January 2012 are lower than the average ROA and ROE of the Comparable Companies.

▪ **Historical earnings and NA multiples of ECMLFG Group**

The Implied PER derived based on the Consideration and Effective Consideration of 28.82 times and 27.22 times respectively are **above** the range of ECMLFG's trading PER and **above** the average range of the historical trading PER compared to the historical market price of ECMLFG Shares.

The Implied PBR derived based on the Consideration and Effective Consideration of 1.27 times and 1.20 times respectively are **above** the range of ECMLFG's trading PBR and **above** the average range of the historical trading PBR compared to the historical market price of ECMLFG Shares.

- **Precedent transactions**

The Implied PBR of 1.27 times and 1.20 times derived based on the Consideration and Effective Consideration respectively are **below** the average PBR of the Precedent Transactions of 1.31 times. Notwithstanding this, the shareholders of ECMLFG should note that the Precedent Transactions may not be directly comparable to ECMLIB and in assessing the Proposed Disposal due to various considerations such as prevailing economic and market conditions, franchise name, control premium, differences in capital structure, purchasers' assessment of the asset's strategic value in capturing market share, prevailing regulatory requirement and other relevant factors.

- **Dividend yield of ECMLFG Group**

The dividend payouts of ECMLFG have been in the range of 1.31 sen to 6.55 sen (inclusive of cash and share dividends of 4.25 sen in respect of the FYE 31 January 2011) for the past five (5) years up to FYE 31 January 2012, with gross dividend yields ranging from 2.02% to 8.65%, or an average of 4.60% per annum. As noted from the rationale for the Proposals, given the challenging position as a stand-alone mid-size investment bank, it will be difficult for ECMLIB to continue operating in the current financial model. As such, the Group may pursue other different business opportunities. We note that this is expected to change the financial and risk profile of ECMLFG. Such strategies may potentially result in ECMLFG incurring substantial capital expenditure and expenses which may then affect its free cash flow and future dividend payment capabilities.

Hence, the Proposals represent an opportunity for you to realise part of your investment in ECMLFG and invest the cash proceeds arising therefrom in other forms of investment which may generate a higher and more predictable income stream.

Premised on the analysis above, we are of the view that the Consideration is **fair and reasonable**

(c) **Financial evaluation of the issue price of the Consideration Shares**

- **Trading comparable analysis**

The Implied PER represented by the Consideration Shares of 80.00 times is **higher** than the range of PER of the Comparable Companies of between 6.52 times and 24.86 times and **above** the average PER of 13.10 times of the Comparable Companies; and

The Implied PBR represented by the Consideration Shares of 0.81 times is **within** the range of PBR of the Comparable Companies of between 0.39 times and 0.91 times and **above** the average PBR of 0.69 times of the Comparable Companies.

▪ **Historical share price performance and trading liquidity of KNKH Shares**

The issue price of the Consideration Shares is **above** all the traded closing prices of KNKH Shares for the past twelve (12) months up to the Last Trading Date. In addition, we note that the issue price of the Consideration Shares represents a **premium** ranging from 51.42% to 65.37% over the periods of five (5)-day, one (1)-month, three (3)-month, six (6)-month, twelve (12)-month VWAPs up to the Last Trading Date, last transacted market price on Last Trading Date and the LPD.

The average monthly trading volumes of KNKH Shares was only 6,049,025 KNKH Shares, representing 3.03% of the average free float of 199.79 million KNKH Shares. The enlarged KIBB group pursuant to the Proposed Business Merger is expected to garner more interest from investors.

KNKH Shares have generally **underperformed** the FBMKLCI Index for the past twelve (12) months up to the Last Trading Date, whereby the share prices of KNKH have appreciated by 21.74% compared to the FBMKLCI Index which appreciated by 65.38%. Furthermore, the total return of KNKH Shares was 23.25% against the total return of the FBMKLCI Index of 83.42% during the same period.

Notwithstanding, we wish to highlight that the issue price of the Consideration Shares represents the par value of KNKH Shares and cannot be issued lower than the par value except in accordance with Section 59 of the Act.

In addition, we wish to highlight that the financial evaluation of the issue price of the Consideration Shares is based on the historical market prices of KNKH Shares and hence, has not taken into consideration any movement in the market prices of KNKH Shares subsequent to the LPD or upon the completion of the Proposed Disposal.

▪ **Historical earnings and NA multiples of the KNKH Group**

The Consideration Shares PBR based on the audited consolidated financial statements of KNKH as at FYE 31 December 2011 of 0.81 times is **above** the range of KNKH's trading PBR of 0.39 times and 0.91 times and **above** the average trading PBR of 0.69 times for the past twelve (12) months up to the Last Trading Date.

The Consideration Shares PER based on the audited consolidated financial statements of KNKH as at FYE 31 December 2011 of 80.00 times is **above** the range of KNKH's trading PER of 6.52 times and 24.86 times and **above** the average trading PER of 13.10 times for the past twelve (12) months up to the Last Trading Date.

We note that while the Consideration Shares represented by the implied PER and implied PBR appear to be higher than the historical trading multiples and range of PER and PBR of the Comparable Companies, the part settlement of the purchase consideration by way of issuance of 120,000,000 KNKH Shares consists of only 13.71% and 9.22% of the Consideration and Effective Consideration respectively.

▪ **Dividend yield of the KNKH Group**

KNKH does not have a publicly stated dividend policy and its dividend payouts for the past five (5) years up to FYE 31 December 2011 have been inconsistent due to losses incurred during said financial years.

As summarised above, the issue price of the Consideration Shares of RM1.00 each and the number of the Consideration Shares are **not fair**, however, based on our evaluation of the Effective Consideration after the taking into account the prevailing market price of KNKH Shares, the implied PER and PBR based on the Effective Consideration is higher than the PER and PBR of the Comparable Companies as evaluated in Section 4.4 of this IAL.

Premised on the above, we are of the view that issue price of the Consideration Shares of RM1.00 each and the number of the Consideration Shares are **not fair** but **reasonable**.

(d) Distribution of the Consideration to the Entitled Shareholders

There is no change in your financial position should you vote in favour of the Proposed Disposal or maintain your current position based on the illustration set out in Section 4.6 of this IAL.

It should also be noted that the RULS carries an interest of 5% per annum, payable semi-annually in cash which is higher than the average gross dividend yield of 4.60% per annum for ECMLFG Shares for the past five (5) years up to FYE 31 January 2012 as set out in Section 4.4.4 of this IAL. In addition, the cash proceeds to be received from the Proposed Capital Repayment can be invested into other forms of investments which may generate higher returns.

(e) Financial effects of the Proposals

The Proposed Disposal will not have any effect on the issued and paid-up share capital of ECMLFG whilst the Proposed Capital Restructuring will reduce the number of ECMLFG Shares in issue.

The Proposed Disposal and Proposed Capital Repayment will not have any effect on the substantial shareholders' shareholdings in ECMLFG. The Proposed Share Split and Proposed Share Consolidation will not have any effect on the substantial shareholders' shareholdings on ECMLFG, save for the effects arising from the exercise of the outstanding ESOS options as at LPD.

The Proposed Capital Restructuring is not expected to have any material effect on the earnings of the ECMLFG Group for the FYE 31 January 2013. The Proposed Disposal is expected to reduce the consolidated earnings and EPS of ECMLFG for the FYE 31 January 2013.

On a proforma basis assuming the Proposed Disposal and Proposed Capital Restructuring had been effected on the LPD, the NA per share and NTA per share of ECMLFG will increase under the Minimum Scenario whilst the NA per share will remain and NTA per share of ECMLFG will increase under the Maximum Scenario, based on the audited consolidated statement of financial position of ECMLFG as at 31 January 2012. The Proposed Disposal and Proposed Capital Restructuring will have no bearing on the gearing ratio of ECMLFG.

The Proposed Business Merger will not have any bearing on the issued and paid-up share capital, substantial shareholders' shareholdings, consolidated earnings per share, consolidated NA per share and consolidated gearing of ECMLFG as it is part of the internal restructuring of KIBB after the completion of the Proposed Disposal.

The financial effects of the Proposals on the share capital, substantial shareholders' shareholdings of the Company, as well as the NA, NTA and gearing of the Group, taken as a whole, are not detrimental to the interest of the non-interested shareholders of ECMLFG, except that the Group will record a loss per share of 2.02 sen or 1.86 sen based on the Minimum Scenario and the Maximum Scenario respectively.

Qualitative aspects

(a) Rationale for the Proposals

We note that the Proposed Disposal and Proposed Business Merger will provide an opportunity for ECMLFG to exit the investment banking and stockbroking industry given the challenging prospects for ECMLIB to continue operating as a stand-alone mid-size investment bank.

With the consolidation of the banking groups as a result of mergers and acquisitions, it will further intensify competition in the investment banking business and hence, could cause a further drop in ECMLIB's business performance.

The Proposed Capital Restructuring is essentially undertaken for the purpose of returning the proceeds received from the Proposed Disposal to the shareholders of ECMLFG.

We are of the view that the rationale for the Proposals is **reasonable**.

(b) Salient terms of the SPA

The salient terms and conditions of the SPA are generally **fair and reasonable**.

(c) Industry outlook, overview and future prospects of the ECMLFG Group and the enlarged KNKH Group

We have taken note of the prospects of ECMLIB as a stand-alone mid-size investment bank and prospects and future plans of the enlarged KNKH Group, the outlook and prospects of the Malaysia economy, the banking and financial services sector, the securities and stockbroking industry, and investment banking industry in Malaysia as set out in Section 4.8 of this IAL.

Following the Proposed Disposal, the financial performance of the Group, in the immediate term, will be adversely affected as the financial results of the ECMLIB Group (being a major contributor to the Group) will no longer be consolidated as part of the ECMLFG Group moving forward.

However, as an Entitled Shareholder and if you vote for the Proposals, you will be able to enjoy the future prospects of the enlarged KNKH Group, including the potential synergies that are anticipated to arise from the enlarged KNKH Group. However, do note the future prospects of the enlarged KNKH Group are forward looking in nature and the potential synergies anticipated may take considerable time to achieve.

After taking into consideration the various factors discussed above, we are of the opinion that, on the basis of the information available to us, on balance, the overall terms of the Proposals are fair and reasonable in so far as the shareholders of ECMLFG are concerned and are not to the detriment of the non-interested shareholders of ECMLFG.

Accordingly, we recommend that you VOTE IN FAVOUR of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of the Company.

Yours faithfully,
For and on behalf of
AFFIN INVESTMENT BANK BERHAD

JOHAN HASHIM
Head
Corporate Finance

ZAWIYAH KASSIM
Vice President
Corporate Finance

INFORMATION ON THE ECMLIB GROUP

1. HISTORY AND PRINCIPAL ACTIVITIES

ECMLIB was incorporated in Malaysia under the Act on 2 June 1930.

As at the LPD the authorised share capital of ECMLIB is RM700,000,000 comprising 700,000,000 ordinary shares of RM1.00 each, of which 513,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up. ECMLIB is a wholly-owned subsidiary of ECMLFG.

The ECMLIB Group is principally involved in dealing with securities and derivatives and is a Participating Organisation of Bursa Securities and a Trading Participant of Bursa Malaysia Derivatives Berhad. ECMLIB is also involved in the provision of corporate finance and other advisory services by virtue of its status as an investment bank. The subsidiaries are principally engaged in the provision of nominee services to clients. The type of products and services provided by the ECMLIB Group include stockbroking, investment banking, structured lending, treasury, capital market, and wealth management.

2. SHARE CAPITAL

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

Type	No. of Shares	Par Value RM	Amount RM
Authorised	700,000,000	1.00	700,000,000
Issued and Paid-up	513,000,000	1.00	513,000,000

3. SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Subsidiaries	Place/ Date of incorporation	Issued and paid-up capital RM	Effective equity interest (%)	Principal activity
ECML Nominees (Tempatan) Sdn Bhd	Malaysia/ 11 February 1938	50	100	Provision of nominee services for local clients
ECML Nominees (Asing) Sdn Bhd	Malaysia/ 11 June 1993	2	100	Provision of nominee services for foreign clients
Avenue Kestrel Sdn Bhd	Malaysia/ 3 February 1983	39,000,000	100	Dormant

ECMLIB does not have any associated company.

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

The particulars of the Directors of ECMLIB and their shareholdings in ECMLIB as at the LPD are as follows:

Name	Nationality	Designation	Direct		Indirect	
			No. of ECMLIB Shares	%	No. of ECMLIB Shares	%
Dato' Mohd Ali bin Abd Samad	Malaysian	Chairman	-	-	-	-
Datuk Kamarudin bin Md Ali	Malaysian	Director	-	-	-	-
Mahadzir bin Azizan	Malaysian	Director	-	-	-	-
Lim Kian Onn	Malaysian	Director	-	-	-	-
Dato' Othman bin Abdullah	Malaysian	Director	-	-	-	-
Lum Sing Fai	Malaysian	Director	-	-	-	-

5. SUBSTANTIAL SHAREHOLDER

The substantial shareholder of ECMLIB as at the LPD is as follows:

Name	Country of incorporation	Direct		Indirect	
		No. of ECMLIB Shares '000	%	No. of ECMLIB Shares '000	%
ECMLFG	Malaysia	513,000	100.00	-	-

6. HISTORICAL FINANCIAL INFORMATION

The summary of the key financial information of the ECMLIB Group based on its audited consolidated financial statements for the past three (3) FYE 31 January 2012 and the unaudited three (3)-month financial period ended ("FPE") 30 April 2012 is set out below:

	FYE 31 January 2010 RM'000	FYE 31 January 2011 RM'000	FYE 31 January 2012 RM'000	3-month FPE 30 April 2012 RM'000
Revenue	120,076	207,771	166,565	42,748
PBT	43,207	84,683	51,773	8,413
Taxation	(4,600)	(20,935)	(21,407)	(2,382)
PAT	38,607	63,748	30,366	6,031
Gross EPS (sen) ⁽¹⁾	8.42	16.51	10.09	1.64
Net EPS (sen) ⁽²⁾	7.53	12.43	5.92	1.18
Issued and paid-up share capital	513,000	513,000	513,000	513,000
Shareholders' funds / NA	632,909	653,012	687,723	682,934
NA per share (RM) ⁽³⁾	1.23	1.27	1.34	1.33
Current ratio (times)	1.32	1.28	1.30	1.26
Total interest-bearing borrowings	-	-	-	-
Gearing (times)	-	-	-	-

INFORMATION ON THE ECMLIB GROUP (Cont'd)

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*

There were no exceptional and/or extraordinary items during the years under review.

The adoption of new or amended accounting policies did not have any significant effect on the financial performance or position of the ECMLIB Group for the FYE 31 January 2010 to 2012 except for FRS 139 whose impact has been reflected in the FYE 31 January 2012 audited financial statements.

There have been no audit qualifications to its financial statements during the years under review.

Commentaries:**(i) FYE 31 January 2010**

ECMLIB Group's revenue increased by 88.8% to RM120.1 million in FYE 31 January 2010 mainly due to increase in non-interest income from RM27.7 million in FYE 31 January 2009 to RM76.8 million in FYE 31 January 2010.

The ECMLIB Group's PBT increased from RM4.3 million in FYE 31 January 2009 to RM43.2 million mainly due to increase in net brokerage by 63.3% to RM43.2 million in the financial year under review in line with higher turnover and better trading performance of Bursa Securities. In addition, investment and trading income also increased from a loss of RM14.8 million in FYE 31 January 2009 to gain of RM23.2 million in FYE 31 January 2010.

(ii) FYE 31 January 2011

ECMLIB Group's revenue increased by 73.0% to RM207.8 million in FYE 31 January 2011 mainly due to increase in non-interest income from RM76.8 million in FYE 31 January 2010 to RM139.8 million in FYE 31 January 2011.

The ECMLIB Group's PBT increased by 96.0% to RM84.7 million mainly due to increase in trading and investment income from RM26.4 million in FYE 31 January 2010 to RM85.7 million in FYE 31 January 2011 as the Group recorded net gain from disposal of available-for-sale securities of RM58.1 million as compared to RM19.0 million in the previous financial year. This was partially offset by increase in operating expenses from RM60.6 million in FYE 31 January 2010 to RM79.6 million, provision of impairment allowance of RM4.7 million for securities and allowance for losses on loans, advances and financing of RM5.1 million in FYE 31 January 2011.

(iii) FYE 31 January 2012

ECMLIB Group's revenue decreased by 19.8% to RM166.6 million in FYE 31 January 2012 mainly due to decrease in non-interest income from RM139.8 million in FYE 31 January 2011 to RM80.8 million in FYE 31 January 2012 .

INFORMATION ON THE ECMLIB GROUP (Cont'd)

The ECMLIB Group's PBT decreased by 38.9% to RM51.8 million mainly due to decline in investment and trading income by from RM85.7 million in FYE 31 January 2011 to RM24.4 million in FYE 31 January 2012 mainly due to lower net gain from disposal of securities available-for-sale from RM58.1 million in previous financial year to RM9.8 million in current financial year under review. The reduction in non-interest income was partially offset by increase in net interest income from RM28.6 million in FYE 31 January 2011 to RM35.1 million in FYE 31 January 2012. In addition, there is an aggregate writeback of allowances for loans, doubtful and bad debts and impairment on securities of RM9.6 million in current financial year mainly arising from recoveries as compared to a net allowance made of RM9.5 million in the previous financial year.

7. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 January 2012, save as disclosed below, ECMLIB is not aware of material commitments or contingent liabilities incurred or known to be incurred by ECMLIB which may, upon being enforceable, have a material adverse effect on ECMLIB's profits or NA.

In the normal course of business, ECMLIB makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. Commitments and contingencies in the normal course of business of ECMLIB are as follows:

	RM'000
Commitments to extend credits with maturity of less than one (1) year:	
- margin facilities	492,574
- term loan facilities	60,667
Foreign exchange related contracts	5,814
Total	559,055
 Capital commitments	
Authorised and contracted for	2,336
 Non-cancellable operating lease commitments	
Future minimum rental payable	
- within one (1) year	6,230
- between one (1) and five (5) years	5,389
	11,619

8. MATERIAL CONTRACTS

Save for the BMA, the ECMLIB 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.

9. MATERIAL LITIGATION

Save as disclosed below, as at the LPD, the ECMLIB 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 ECMLIB Group and the Board 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 ECMLIB Group.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

- (i) Quah Lay Beng and Quah Lay Swee ("**Plaintiffs**") had vide an originating summons dated 30 March 2012 initiated legal action against ECMLIB over disputed amounts in various margin accounts. The claim amounts to, in aggregate, the sum of RM3,104,310.30 together with interest at the rate of 4% per annum from 4 September 2011 until full settlement, costs and other relief as the court deems fit.

ECMLIB, through its counsel, had filed the following applications at the Kuala Lumpur High Court:

- (a) summons in chambers in respect of the application of ECMLIB to convert the originating summons to a writ; and
- (b) an ex-parte summons in chambers in respect of the application for leave to issue third party notice to Joseph Lee Yok Min @ Ambrose for the purpose of including him as a third-party defendant in the matter.

The Plaintiffs have no objection to application (b) above but have objected to application (a) above. Accordingly, the Plaintiffs have filed an Affidavit in Reply to application (a) above and ECMLIB has subsequently filed an Affidavit in Response.

The court has directed parties to file in their respective written submission by 29 June 2012. Further, the mediation fixed on 30 May 2012 has been adjourned to 28 June 2012.

The Directors of ECMLIB are of the opinion that ECMLIB has a strong basis to successfully defend against the claim.

- (ii) ECMLIB had initiated legal action against Foon Weng Yew ("**1st Defendant**") and Phoon Yoke Chan ("**2nd Defendant**") claiming for the sum of RM2,276,168.00 for trading losses incurred on the 2nd Defendant's futures trading account.

Trial has concluded for the suit with judgment having been delivered where ECMLIB's claim against the 1st Defendant was dismissed and the 2nd Defendant was ordered to pay to ECMLIB the sum of RM2,276,168.00.

ECMLIB has filed a Notice of Appeal appealing against the part of the decision which dismissed ECMLIB's claim against the 1st Defendant.

The appeal is now fixed for case management on 5 July 2012. The solicitors of ECMLIB are of the opinion that ECMLIB has an arguable claim against the 1st Defendant.

- (iii) ECMLIB brought a claim against Foo Ai Meng and eight (8) others ("**Defendants**"), who were prospective remisiers of ECMLIB, claiming for RM1,634,266 as damages, general damages for loss of and injury to reputation and/or negligence of the Defendants, general damages for loss of future earnings together with interest at the rate of 8% on all sums ordered to be paid to ECMLIB by the Defendants from the date of the writ until full realization and costs of the suit.

The trial of the matter is currently ongoing with ECMLIB having called six (6) witnesses thus far. The solicitors of ECMLIB are of the opinion that ECMLIB has a fair chance of obtaining judgment in its favour.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

(iv) ECMLIB brought a claim against Sio Ming Chuan ("**Defendant**") for the sum of RM2,525,292.80 for contra losses. Summary judgment was entered against the Defendant for the sum of RM3,075,354.29. The Defendant filed an appeal against the decision of the High Court Judge wherein the Court of Appeal allowed part of the Defendant's appeal, with the salient parts of the judgment as follows:

(a) the issues raised have been examined and the only triable issue is in relation to the issue of interest; and

(b) the Court of Appeal ordered that the issue of interest be determined at trial.

The matter has not reverted to the High Court on the issue of interest and the Board is in the midst of deliberating whether (i) to proceed with the trial at the High Court; and (ii) to re-initiate execution proceedings based on the principal amount without interest.

10. LATEST AUDITED FINANCIAL STATEMENTS

The audited financial statements (together with the notes to the financial statements) and the independent auditors' report thereon of ECMLIB Group for the FYE 31 January 2012 are set out in the ensuing pages.

The rest of this page has been intentionally left blank
--

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 January 2012.

Principal activities

The Bank is principally involved in dealing with securities and derivatives and is a participating organisation of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and a trading participant of Bursa Malaysia Derivatives Berhad ("BMDB"). The Bank is also involved in the provision of corporate finance and other advisory services by virtue of its status as an investment bank. The subsidiaries are principally engaged in the provision of nominee services to clients.

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

Results

	Group RM'000	Bank RM'000
Net profit for the year	<u>30,366</u>	<u>30,134</u>

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

Dividends

The Bank has paid an interim single-tier dividend of 6.20 sen per share amounting to RM31,786,000 in respect of financial year ended 31 January 2011.

The directors have declared an interim single-tier dividend of 2.94 sen per share on 513,000,000 ordinary shares, amounting to RM15,067,000 for the financial year ended 31 January 2012. The directors do not propose any final dividend for the financial year ended 31 January 2012.

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Directors**

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

Dato' Mohd Ali bin Abd Samad
Datuk Kamarudin bin Md Ali
En Mahadzir bin Azizan
Mr Lim Kian Onn
Dato' Othman bin Abdullah
Mr Lum Sing Fai

In accordance with Article 60 of the Articles of Association of the Bank, Dato' Mohd Ali bin Abd Samad and Dato' Othman bin Abdullah will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

No director holding office at the end of the financial year had any beneficial interest in the ordinary shares/options of the Bank and/or related corporations during the financial year except for Mr Lim Kian Onn, Datuk Kamarudin bin Md Ali, En Mahadzir bin Azizan and Dato' Othman bin Abdullah whose beneficial interests are disclosed in the Register of Directors' Shareholdings of the holding company as provided for under Section 134 of the Companies Act 1965.

Directors' benefits

Since the end of the previous financial year, none of the directors of the Bank has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in Note 29 of the financial statements or the fixed salary of a full time employee of the Bank or of a related company) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for Mr Lim Kian Onn who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares and/or the provision of services including but not limited to management and consultancy services, tenancies and/or the provision of treasury functions and the conduct of normal stockbroking business between the Bank and its related corporations or corporations in which Mr Lim Kian Onn is deemed to have interests.

There were no arrangements during and at the end of the financial year which had the object of enabling the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other body corporate other than the share options granted pursuant to the Employees Share Option Scheme of the holding company.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Corporate governance****A. Directors****(i) The Board**

The Bank is led by a proactive Board of Directors ("the Board") with a blend of good management and entrepreneurial skills, supported by independent directors who bring to the Board their different fields of training and experiences. The composition of the Board is set out in Page 2 of this report.

The Board is primarily entrusted with the responsibility of setting the goals and the direction of the Bank whilst the Chief Executive Officer is responsible for the day-to-day management of the Bank and the execution of the policies and strategies set by the Board. The role and responsibilities of the Board broadly cover formulation of corporate policies and board strategies, overseeing and evaluating the conduct of the Bank's businesses, ensuring various control systems are in place as well as regularly evaluating such systems to ensure its integrity. The controls are necessary to minimise the risks associated with the businesses of the Bank.

The Board meets on a monthly basis and additionally as and when required, with a formal schedule of matters specifically reserved for its deliberation and decision. During the financial year under review, twelve (12) Board meetings were held and attended by all the directors. All directors have complied with the requirements in respect of Board meeting attendance as stipulated by Bank Negara Malaysia ("BNM").

The Board collectively reviews and approves all key proposals for implementation. Proposals are put to vote after careful deliberation and the Chairman of the meeting has a second or casting vote in the event of a tie in votes, except when only two directors are competent to vote on the question in issue.

The Board is updated on the Bank's affairs at Board meetings. On an ad-hoc basis, the Board members can and do obtain information on the Bank's activities from the management team. This is to enable the Board members to discharge their duties and responsibilities competently and in an informed manner. During the financial year under review, in addition to some Board members attending the Financial Institution Directors Education Programme ("FIDE"), individual Board members also attended external training courses such as Bursa Malaysia's Sustainability Programme, FIDE Elective Programmes on Audit Committee and Risk Management in Takaful, the ICAA-MICPA Forum on Improving Corporate Governance in Malaysian Capital Markets - The Role of the Audit Committee, Budget 2012 - National Transformation Policy: Welfare of Rakyat, Well Being of the Nation and the Securities Commission-Bursa Malaysia Corporate Governance Week 2011.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Corporate governance (cont'd.)

A. Directors (cont'd.)

(i) The Board (cont'd.)

In the preparation of the financial statements, the Board have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those set out in the Guidelines on Financial Reporting for Financial Institutions and Guidelines on Classification and Impairment Provisions for Loans/Financing.

(ii) Board Balance

For the financial year ended 31 January 2012, the Board comprised six (6) Directors, all of whom are non-executive. Of the non-executive directors, four (4) are independent. There is a clear division of responsibilities at the head of the Bank to ensure a balance of authority and power. The wide spectrum of knowledge, skills and experience of the Board members gives added strength to the leadership which is necessary for the effective stewardship of the Bank.

The Board recognises the importance and contribution of its independent non-executive directors. They represent the element of objectivity, impartiality and independent judgment of the Board. This ensures that there is adequate check and balance at the Board level. The four (4) independent directors of the Bank provide the Board with vast and varied exposure, expertise and broad business and commercial experience.

(iii) Board Committees

(a) Board Audit Committee ("BAC")

The BAC comprises the following members:

- Datuk Kamarudin bin Md Ali (Chairman, Independent Non-Executive)
- Dato' Othman bin Abdullah (Independent Non-Executive)
- Dato' Mohd Ali bin Abd Samad (Independent Non-Executive)

whose scope of responsibilities is as follows:

1. Recommend the appointment/removal of external auditors, assess their objectivity, performance and independence; review their management letters and ensure recommendations are complied with on a timely basis; approve and ensure adequate checks and balances are in place if any non-audit services provided by the same audit firm, and have direct communication with the auditors at least twice annually.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Corporate governance (cont'd.)

A. Directors (cont'd.)

(iii) **Board Committees (cont'd.)**

(a) **Board Audit Committee ("BAC") (cont'd.)**

2. Review the effectiveness of internal controls and risk management processes.
3. Ensure fair and transparent reporting and prompt publication of the financial statements.
4. Review all related party transactions and keep the Board informed of such transactions.
5. Oversee the function of internal audit; review its scope of audit programme and findings as well as recommend actions to be taken by management on audit findings, and appoint/transfer/dismissal of the Chief Internal Auditor including evaluation of his/her performance and compensation.

(b) **Board Risk Management Committee ("BRMC")**

The BRMC comprises the following members:

- Dato' Othman bin Abdullah (Chairman, Independent Non-Executive)
- Datuk Kamarudin bin Md Ali (Independent Non-Executive)
- En Mahadzir bin Azizan (Independent Non-Executive)

whose scope of responsibilities is as follows:

1. Review and recommend risk management strategies, policies and risk tolerance for Board's approval. This includes recommending to the Board the risk appetite that is consistent with the Bank's overall business aims and desired risk profile;
2. Review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Corporate governance (cont'd.)

A. Directors (cont'd.)

(iii) Board Committees (cont'd.)

(b) Board Risk Management Committee ("BRMC") (cont'd.)

3. Ensure infrastructure, resources and systems are in place for risk management i.e. ensure that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities; and
4. Review Risk Management Department's periodic reports on risk exposure, risk portfolio composition and risk management activities.

(c) Board Credit Committee ("BCC")

The BCC comprises the following members:

- Mr Lim Kian Onn (Chairman, Non-Independent Non-Executive)
- En Mahadzir bin Azizan (Independent Non- Executive)
- Mr Lum Sing Fai (Non-Independent Non-Executive)

whose scope of responsibilities is as follows:

1. Review/approve the credit risk management policies as recommended by Credit Approval Executive Committee ("CAEC") from time to time.
2. Review/concur/vary and/or veto credit applications approved by CAEC.
3. Review and approve all new products and services to be introduced by the Bank.
4. Oversee the credit risk management process of the Bank.

(d) Board Nomination Committee ("BNC") and Board Remuneration Committee ("BRC").

BNM had given approval to the Bank to avail on the services of the BNC and BRC at the holding company level.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Corporate governance (cont'd.)****B. Internal Audit**

The internal audit functions are organised on a Group basis while the department is established at the Bank. The core functions of Internal Audit are:

- (i) Perform an independent overview and appraisals of the Group activities with the emphasis on the core business activities, as a service to the management.
- (ii) Evaluate the quality and appropriateness of Group management's approach to risk and control in their framework objectives and the effectiveness of the risk management procedures.
- (iii) Assess the adequacy and effectiveness of systems of risk management and internal controls; giving opinion on the effectiveness of the internal controls implemented, mitigation of risks, continuity and reliability of information systems; and provide assurance that adequate controls are in place in safeguarding of assets.
- (iv) Detection of frauds, errors, omissions and other irregularities, uncover significant control weaknesses, assist the management to revise and strengthen the controls features to prevent recurrence and BNM and other regulators should be informed of the audit results, wherever necessary.
- (v) Provide value added management audit service to the Group management in determining optimum utilisation of available resources to be economically, effectively and efficiently utilised and managed.
- (vi) Information system audit to ensure the control features in the Group's information systems and infrastructure are adequate.
- (vii) Evaluate whether the Group is in compliance with the policies and procedures, applicable laws, guidelines and directives issued by BNM and other regulators and relevant rules set by various associations.
- (viii) Play participative and consultative role in assisting the management to accomplish the Group's overall goals and objectives.
- (ix) Provides periodic reports to the BAC, reporting on the outcome of the audits conducted, effectiveness of the system of internal controls implemented and highlighting key control issues impacting the Group. This enables the BAC to execute its oversight function by forming an opinion on the adequacy of measures undertaken by management.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Corporate governance (cont'd.)****B. Internal Audit (cont'd.)**

During the financial year ended 31 January 2012, the Internal Audit Department had carried out its duties, primarily in the Bank and Libra Invest Berhad, a fellow subsidiary, covering business, financial, management, operational and IT areas. The International Standards for the Professional Practice of Internal Auditing, Bursa Malaysia rules (Rule 510) and BNM guidelines ("GP10") on internal audit functions are used as authoritative guiding principles for internal auditing procedures.

C. Statement on Internal Control**Responsibility**

The Board is responsible for the Bank's system of internal control and for reviewing its adequacy and integrity. The Board recognises that the Bank's system of internal control is designed to manage and not eliminate the risk of failure to achieve the Bank's objectives. Hence, it can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

Key Processes

There is an on-going process for identifying, evaluating and managing the significant risks faced by the Bank throughout the financial year, and the said process is reviewed by the Board and accords with the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

The Board has appointed the BAC and BRMC comprising independent directors to examine the effectiveness of the Bank's risk management policies, processes and infrastructure which are established to manage various types of risks and to ensure an effective internal audit function. This is accomplished through the review of the work of the Bank's Risk Management Department and Compliance Department and the Bank's Internal Audit Department, which focuses on areas of priority identified through risk assessment and in accordance with the plans approved by the BAC. The Bank's risk management comprises credit risk management, market risk management and operational risk management, and the department is headed by the Head of Risk Management. While business/operating units have the primary responsibility for managing specific risks assumed by them, Risk Management Department provides the central resource for developing tools and methodologies for the identification, quantification and management of the risks taken by the Bank as a whole.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Corporate governance (cont'd.)

C. Statement on Internal Control (cont'd.)

Key Processes (cont'd.)

In carrying out its responsibilities, the BAC relies on the support of Compliance Department and Internal Audit Department in providing assurance on the adequacy of internal controls. Compliance Department provides BAC periodic reports on conformance with relevant regulatory and statutory requirements, whilst the Bank's Internal Audit Department provides BAC with periodic reports highlighting on any non-compliance as well as recommendations and management action plans to improve the system of internal controls. On a quarterly basis, the BRMC receives risk management reports on the Bank's risk exposure, risk portfolio composition and assesses the risk management policies and framework with Risk Management Department.

The framework of the Bank's system of internal controls and key procedures includes:

- A management structure exists with clearly defined lines of responsibility and the appropriate levels of delegation.
- Key functions such as finance, taxation, treasury, human resources and legal matters are controlled centrally.
- The management determines the applicability of risk monitoring and reporting procedures and is responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls.
- Clear definitions of limits of authority and responsibilities have been approved by the Board and subject to regular reviews and enhancements.
- Policies and procedures with embedded internal controls are documented in a series of policies and procedures, which will be subjected to annual review for updating of any changes in operational processes or regulatory requirements. Business and Support units in the Bank must ensure compliance with the policies and procedures.
- Corporate values, which emphasise on ethical behaviour and quality services, are set out in the Bank's Employee Handbook.

On yearly basis, all the business units within the Bank draw up their business plans and budgets for the Board's approval and the performance is tracked on a monthly basis.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Performance review for 2012**

For the current financial year, the Bank achieved a profit before taxation of RM51.5 million. The income was largely contributed by net brokerage fee of RM47.3 million, net interest income of RM35.0 million and investment and trading income of RM24.4 million.

The Bank achieved a profit after tax of RM30.1 million for financial year ended 31 January 2012.

Outlook for the next financial year

The outlook for the Malaysian economy is expected to be challenging, with the ongoing global economic slowdown. Notwithstanding that, implementation of the Financial Sector Blueprint is expected to focus and strengthen the competitiveness and efficiency of the financial sector.

The Bank anticipates that the investment banking landscape will continue to remain challenging and competitive and therefore will focus on enhancing its capacity and capabilities for the next financial year. With its strong fundamentals and balance sheet, the Bank is expected to show satisfactory performance in the next financial year.

Rating by rating agencies

The Bank is not rated by any rating agency.

Other statutory information**(I) As at the end of the financial year**

- (a) Before the statements of comprehensive income and statements of financial position of the Group and the Bank 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 financing and the making of allowances for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate allowances had been made for doubtful debts and financing; and
 - (ii) to ensure that any current assets, other than debts and financing, which were unlikely to realise their book values as shown in the accounting records in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Other statutory information (cont'd.)**(II) From the end of the financial year to the date of this report**

(a) The directors are not aware of any circumstances:

- (i) which would render the amount written off for bad debts and financing or the amount of the allowances for doubtful debts and financing inadequate to any material extent;
- (ii) which would render the values attributed to current assets in the financial statements misleading; and
- (iii) which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Bank misleading or inappropriate.

(b) In the opinion of the directors:

- (i) the results of the operations of the Group and the Bank for the financial year ended 31 January 2012 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Bank to meet their obligations as and when they fall due.

(III) As at the date of this report

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad**
(Incorporated in Malaysia)**Ultimate holding company**

The holding and ultimate holding company is ECM Libra Financial Group Berhad, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

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.


Dato' Mohd Ali bin Abd Samad

Kuala Lumpur
28 March 2012



Lim Kian Onn

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
Statement by directors
Pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Mohd Ali bin Abd Samad and Lim Kian Onn, being two of the directors of ECM Libra Investment Bank Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 16 to 100 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 January 2012 and of their results and their cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors.


Dato' Mohd Ali bin Abd Samad


Lim Kian Onn

Kuala Lumpur
28 March 2012

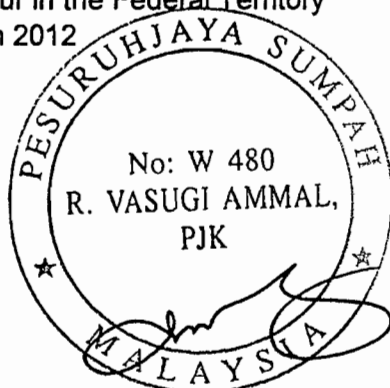
Statutory declaration
Pursuant to Section 169(16) of the Companies Act, 1965

I, Lim Boon Soon, being the officer primarily responsible for the financial management of ECM Libra Investment Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 16 to 100 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 Lim Boon Soon at
Kuala Lumpur in the Federal Territory
on 28 March 2012


Lim Boon Soon

Before me,



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

13

115

INFORMATION ON THE ECMLIB GROUP (Cont'd)



Ernst & Young
 AF : 0039
 Level 23A, Menara Milenium
 Jalan Damanlela
 Pusat Bandar Damansara
 50490 Kuala Lumpur, Malaysia
 Mail address: P.O. Box 11040
 50734 Kuala Lumpur, Malaysia
 Tel: +603 7495 8000
 Fax: +603 2095 5332 (General line)
 +603 2095 9076
 +603 2095 9078
 www.ey.com

682-X

**Independent auditors' report to the member of
 ECM Libra Investment Bank Berhad
 (Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of ECM Libra Investment Bank Berhad, which comprise the statements of financial position as at 31 January 2012 of the Group and of the Bank, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 16 to 100.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's Guidelines and the Companies Act, 1965 in Malaysia, 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 about whether the financial statements are free from material misstatement.

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

**682-X**

**Independent auditors' report to the member of
ECM Libra Investment Bank Berhad (cont'd.)
(Incorporated in Malaysia)**

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 January 2012 and of their financial performances and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries 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 Bank 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 accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
28 March 2012

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Statements of financial position as at 31 January 2012

	Note	Group		Bank	
		2012	2011	2012	2011
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	3	403,218	389,669	402,901	389,500
Deposits with financial institutions	4	20,631	21,489	20,631	21,489
Securities held-for-trading	5	360,985	353,818	360,985	353,818
Securities available-for-sale	6	673,363	519,479	673,363	519,479
Securities held-to-maturity	7	200,000	70,000	200,000	70,000
Derivative financial assets	8(a)	6,688	9,552	6,688	9,552
Loans, advances and financing	9	550,242	649,880	550,242	649,880
Trade receivables	10	360,809	482,122	360,809	482,122
Other assets	11	26,697	15,602	26,689	15,593
Statutory deposit with Bank Negara Malaysia	12	27,165	8,834	27,165	8,834
Investment in subsidiary companies	13	-	-	-	-
Deferred tax assets	15	-	10,687	-	10,687
Property, plant and equipment	16	21,714	25,534	21,714	25,534
Intangible assets	17	52,500	52,500	52,500	52,500
Total assets		2,704,012	2,609,166	2,703,687	2,608,988
Liabilities and equity					
Liabilities					
Deposits from customers	18	1,110,065	1,075,123	1,114,397	1,079,365
Deposits and placements of banks and other financial institutions	19	341,371	201,008	341,371	201,008
Trade payables	20	482,878	576,600	482,878	576,600
Derivative financial liabilities	8(b)	57	-	57	-
Other liabilities	21	71,384	103,189	71,354	103,160
Provision for taxation		2,830	-	2,826	-
Amount owing to related companies	14	234	234	234	234
Deferred tax liabilities	15	7,470	-	7,470	-
Total liabilities		2,016,289	1,956,154	2,020,587	1,960,367

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Statements of financial position as at 31 January 2012 (cont'd.)

		Group		Bank	
	Note	2012	2011	2012	2011
		RM'000	RM'000	RM'000	RM'000
Equity attributable to equity holder of the Bank					
Share capital	22	513,000	513,000	513,000	513,000
Reserves	23	174,723	140,012	170,100	135,621
Shareholder's equity		<u>687,723</u>	<u>653,012</u>	<u>683,100</u>	<u>648,621</u>
Total equity and liabilities		<u>2,704,012</u>	<u>2,609,166</u>	<u>2,703,687</u>	<u>2,608,988</u>
Commitment and contingencies	38	<u>559,055</u>	<u>317,193</u>	<u>559,055</u>	<u>317,193</u>

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Statements of comprehensive income
For the year ended 31 January 2012**

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revenue	2.2	166,565	207,771	166,367	207,620
Interest income	24	82,071	64,250	82,071	64,250
Interest expense	25	(46,975)	(35,688)	(47,107)	(35,795)
Net interest income		35,096	28,562	34,964	28,455
Non-interest income	26	84,494	143,521	84,296	143,370
Other non-operating income	27	3,994	1,640	3,994	1,640
Net income		123,584	173,723	123,254	173,465
Operating expenses	28	(81,427)	(79,559)	(81,410)	(79,540)
Operating profit		42,157	94,164	41,844	93,925
Writeback of/(allowance for) losses on loans, advances and financing	30	1,472	(5,059)	1,472	(5,059)
Writeback of bad and doubtful debts	31	6,493	282	6,493	282
Writeback of/(allowance for) impairment on investments	32	1,651	(4,704)	1,651	(4,704)
Profit before tax		51,773	84,683	51,460	84,444
Income tax expense	33	(21,407)	(20,935)	(21,326)	(20,872)
Net profit for the year		30,366	63,748	30,134	63,572
Other comprehensive income:					
Net gain/(loss) on available-for -sale financial assets		26,416	(15,393)	26,416	(15,393)
Income tax relating to components of other comprehensive income	15	(6,604)	3,848	(6,604)	3,848
Other comprehensive income for the year, net of tax		19,812	(11,545)	19,812	(11,545)
Total comprehensive income for the year		50,178	52,203	49,946	52,027
Profit attributable to owner of the Bank		30,366	63,748	30,134	63,572
Total comprehensive income attributable to owner of the Bank		50,178	52,203	49,946	52,027
Earnings per share ("EPS") attributable to owner of the Bank:		Sen	Sen		
- basic	34	5.92	12.43		
- diluted	34	5.92	12.43		

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)Statements of changes in equity
For the year ended 31 January 2012

		<----- Non-distributable ----->					Distributable	
Group	Note	Share capital RM'000	Available- for-sale revaluation reserve RM'000	Equity compensation reserve RM'000	Statutory reserve RM'000	Retained profits RM'000	Total	
							RM'000	RM'000
As at 1 February 2011		513,000	234	612	65,720	73,446	653,012	
Total comprehensive income		-	19,812	-	-	30,366	50,178	
Transactions with owner:								
Arising from the holding company's ESOS								
vested during the year	28	-	-	186	-	-	186	
ESOS lapsed during the year	28	-	-	(586)	-	-	(586)	
Transfer to statutory reserve	23(c)	-	-	-	15,067	(15,067)	-	
Dividend	35	-	-	-	-	(15,067)	(15,067)	
As at 31 January 2012		513,000	20,046	(400)	15,067	(30,134)	(15,467)	
				212	80,787	73,678	687,723	

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)Statements of changes in equity
For the year ended 31 January 2012 (cont'd.)

Group	Note	Share capital RM'000	Available- for-sale revaluation reserve RM'000	Equity compensation reserve RM'000	Non-distributable ----->		Total RM'000
					Statutory reserve RM'000	Retained profits RM'000	
As at 1 February 2010		513,000	11,779	926	33,934	73,270	632,909
Total comprehensive income		-	(11,545)	-	-	63,748	52,203
Transactions with owner:							
Arising from the holding company's ESOS							
vested during the year	28	-	-	128	-	-	128
ESOS lapsed during the year	28	-	-	(442)	-	-	(442)
Transfer to statutory reserve	23(c)	-	-	-	31,786	(31,786)	-
Dividend	35	-	-	-	-	(31,786)	(31,786)
As at 31 January 2011		513,000	234	(314)	31,786	(63,572)	(32,100)
				612	65,720	73,446	653,012

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Statements of changes in equity
For the year ended 31 January 2012

		<----- Non-distributable ----->					Distributable	
Bank	Note	Share capital RM'000	Available- for-sale revaluation reserve RM'000	Equity compensation reserve RM'000	Statutory reserve RM'000	Retained profits RM'000	Total	
							RM'000	
As at 1 February 2011		513,000	234	612	65,720	69,055	648,621	
Total comprehensive income		-	19,812	-	-	30,134	49,946	
Transactions with owner:								
Arising from the holding company's								
ESOS vested during the year	28	-	-	186	-	-	186	
ESOS lapsed during the year	28	-	-	(586)	-	-	(586)	
Transfer to statutory reserve	23(c)	-	-	-	15,067	(15,067)	-	
Dividend	35	-	-	-	-	(15,067)	(15,067)	
As at 31 January 2012		513,000	20,046	(400)	15,067	(30,134)	(15,467)	
				212	80,787	69,055	683,100	

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)Statements of changes in equity
For the year ended 31 January 2012 (cont'd.)

	Note	Share capital RM'000	Available- for-sale revaluation reserve RM'000	Non-distributable ----->		Retained profits RM'000	Total RM'000
				Equity compensation reserve RM'000	Statutory reserve RM'000		
Bank							
As at 1 February 2010		513,000	11,779	926	33,934	69,055	628,694
Total comprehensive income		-	(11,545)	-	-	63,572	52,027
Transactions with owner:							
Arising from the holding company's							
ESOS vested during the year	28	-	-	128	-	-	128
ESOS lapsed during the year	28	-	-	(442)	-	-	(442)
Transfer to statutory reserve	23(c)	-	-	-	31,786	(31,786)	-
Dividend	35	-	-	-	-	(31,786)	(31,786)
As at 31 January 2011		513,000	234	(314)	31,786	(63,572)	(32,100)
				612	65,720	69,055	648,621

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

22

124

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

Statements of cash flows

For the year ended 31 January 2012

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities					
Profit before taxation		51,773	84,683	51,460	84,444
Adjustments for:					
Depreciation of property, plant and equipment	28	4,858	3,872	4,858	3,872
Interest income	24	(82,071)	(64,250)	(82,071)	(64,250)
Interest expense	25	46,975	35,688	47,107	35,795
Property, plant and equipment written off	28	21	1,833	21	1,833
Net gain on disposal of:					
- securities held-for-trading	26	(12,061)	(14,287)	(12,061)	(14,287)
- securities available-for-sale	26	(9,788)	(58,127)	(9,788)	(58,127)
- derivatives	26	(1,938)	(2,114)	(1,938)	(2,114)
Net unrealised (gain)/loss on revaluation of:					
- securities held-for-trading	26	(307)	(182)	(307)	(182)
- derivatives	26	1,691	(1,569)	1,691	(1,569)
Dividend income	26	(1,981)	(9,425)	(1,981)	(9,425)
(Gain)/loss on disposal of property, plant and equipment	27	(2,398)	11	(2,398)	11
Cost arising from ESOS	28	(400)	(314)	(400)	(314)
(Writeback of)/allowance for losses on loans, advances and financing	30	(1,472)	5,059	(1,472)	5,059
Writeback of bad and doubtful debts	31	(6,493)	(282)	(6,493)	(282)
(Writeback of)/allowance for impairment on investments	32	(1,651)	4,704	(1,651)	4,704
Operating loss before working capital changes		(15,242)	(14,700)	(15,423)	(14,832)
Decrease/(increase) in operating assets:					
Securities held-for-trading		5,201	(35,324)	5,201	(35,324)
Derivative financial instruments		3,168	(7,643)	3,168	(7,643)
Loans, advances and financing		101,110	(331,453)	101,110	(331,453)
Trade receivables		127,806	(192,290)	127,806	(192,290)
Other receivables, deposits and prepayments		(7,762)	(69)	(7,753)	(70)
Balance carried forward		214,281	(581,479)	214,109	(581,612)

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
Statements of cash flows**For the year ended 31 January 2012 (cont'd.)**

	Note	Group 2012 RM'000	2011 RM'000	Bank 2012 RM'000	2011 RM'000
Cash flows from operating activities (cont'd.)					
Balance brought forward		214,281	(581,479)	214,109	(581,612)
Decrease/(increase) in operating assets: (cont'd.)					
Statutory deposit with Bank Negara Malaysia		(18,331)	(4,761)	(18,331)	(4,761)
Increase/(decrease) in operating liabilities:					
Deposits from customers		34,942	83,946	35,031	84,160
Deposits and placements of banks and other financial institutions		140,363	(49,638)	140,363	(49,638)
Trade payables		(93,722)	210,269	(93,722)	210,269
Other payables and accruals		(15,086)	20,974	(13,110)	20,979
Amount owing to related companies		-	(10)	-	(10)
Cash generated from/(used in) operations		262,447	(320,699)	264,340	(320,613)
Tax (paid)/refunded		(3,449)	100	(3,375)	182
Net cash generated from/(used in) operating activities		258,998	(320,599)	260,965	(320,431)
Cash flows from investing activities					
Dividend received		1,518	7,474	1,518	7,474
Purchase of property, plant and equipment	16	(9,929)	(14,389)	(9,929)	(14,389)
Purchase of available-for-sale and held-to-maturity securities, net of proceeds from sale		(246,023)	86,576	(246,031)	86,576
Proceeds from sale of property, plant and equipment		8,659	255	8,659	255
Interest income received		78,229	65,253	78,229	65,253
Net cash (used in)/generated from investing activities		(167,546)	145,169	(167,554)	145,169

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)Statements of cash flows
For the year ended 31 January 2012 (cont'd.)

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Placement of monies held in trust	(6,266)	(53,293)	(6,266)	(53,293)
Interest paid	(46,975)	(34,056)	(49,082)	(34,153)
Dividend paid	(31,786)	(19,175)	(31,786)	(19,175)
Net cash used in financing activities	<u>(85,027)</u>	<u>(106,524)</u>	<u>(87,134)</u>	<u>(106,621)</u>
Net increase/(decrease) in cash and cash equivalents	6,425	(281,954)	6,277	(281,883)
Cash and cash equivalents at beginning of year	<u>234,944</u>	<u>516,898</u>	<u>234,775</u>	<u>516,658</u>
Cash and cash equivalents at end of year	<u>241,369</u>	<u>234,944</u>	<u>241,052</u>	<u>234,775</u>
Cash and cash equivalents comprise:				
Cash and short-term funds (Note 3)	403,218	389,669	402,901	389,500
Deposits with licensed financial institutions (Note 4)	20,631	21,489	20,631	21,489
Monies held in trust for clients and dealers' representatives (Note 3 and Note 4)	<u>(182,480)</u>	<u>(176,214)</u>	<u>(182,480)</u>	<u>(176,214)</u>
	<u>241,369</u>	<u>234,944</u>	<u>241,052</u>	<u>234,775</u>

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****Notes to the financial statements - 31 January 2012****1. Corporate information**

The Bank is principally involved in dealing with securities and derivatives and is a Participating Organisation of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and a Trading Participant of Bursa Malaysia Derivatives Berhad ("BMDB"). The Bank is also involved in the provision of corporate finance and other advisory services by virtue of its status as an investment bank. The subsidiaries are principally engaged in the provision of nominee services to clients.

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

The holding and ultimate holding company is ECM Libra Financial Group Berhad, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 February 2012.

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

The financial statements of the Group and of the Bank have been prepared on a historical cost basis, unless otherwise disclosed in the notes to the financial statements and are in accordance with the provisions of Companies Act, 1965 and Financial Reporting Standards ("FRSs") in Malaysia, as modified by Bank Negara Malaysia ("BNM") Guidelines.

2.2 Changes in accounting policies

The accounting policies adopted by the Group and Bank are consistent with those of the previous years except for the adoption of the following FRSs, amendments to FRSs, IC Interpretation and Technical Release, which became effective on 1 January 2011:

	<i>Effective for annual periods beginning on or after</i>
FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
Amendments to FRS 2 Share-based Payment	1 July 2010
FRS 3 Business Combinations (revised)	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 July 2010

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

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

	<i>Effective for annual periods beginning on or after</i>
Amendments to FRS 127 Consolidated and Separate Financial Statements	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 12 Service Concession Arrangements	1 July 2010
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2011
IC Interpretation 18 Transfers of Assets from Customers	1 January 2011
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 1: Limited Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
IC Interpretation 4 Determining Whether an Arrangement contains a Lease	1 January 2011
Improvements to FRS issued in 2010	1 January 2011

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

Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements

The revised standards are effective for annual periods beginning on or after 1 July 2010. The revised FRS 3 introduces a number of changes in accounting for business combinations occurring after 1 July 2010. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

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

Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements (cont'd)

The revised FRS 3 continues to apply the acquisition method to business combinations but with some significant changes. All payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The revised FRS 3 requires goodwill to be determined only at the acquisition date of controlling interest rather than at the previous stages. The determination of goodwill includes the previously held equity interest to be adjusted to fair value, with any gain or loss recorded in profit or loss.

The amendments to FRS 127 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Amendments to FRS 7: Improving Disclosures about Financial Instruments

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 41. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 40.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)

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).

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 January 2013. In presenting its first MFRS financial statements, the Bank 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 established a project team to plan and manage the adoption of the MFRS Framework.

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 January 2012 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 January 2013.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad**
(Incorporated in Malaysia)**2. Significant accounting policies (cont'd.)****2.5 Foreign currency****(a) 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 (RM), which is also the Bank's functional currency. All values are rounded to the nearest (RM'000) except when otherwise indicated.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Bank 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 profit or loss 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 profit or loss 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 profit or loss 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 THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.6 Property, plant and equipment**

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	% per annum
Building	2
Furniture and fittings and office equipment	10 - 20
Computers	20 - 25
Office renovation	10 - 20
Motor vehicles	20

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.7 Intangible assets**

The intangible asset of the Group and the Bank relates to contribution to BNM for a merchant bank licence to transform the Bank from a universal broker into an investment bank. The merchant bank licence has indefinite useful life and is stated at cost less accumulated impairment losses.

Merchant bank licence is 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. Any impairment loss is recognised in profit or loss.

2.8 Impairment of non-financial 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")).

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 profit or loss.

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 profit or loss.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)**
2. Significant accounting policies (cont'd.)**2.9 Subsidiaries**

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.10 Financial assets

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

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 and the Bank determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(a) 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.

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 profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences on monetary items, interest and dividend income. Exchange differences on monetary items, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.10 Financial assets (cont'd.)****(b) Loans and receivables**

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

(c) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

(d) Available-for-sale financial assets

Available-for-sale are financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

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

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.10 Financial assets (cont'd.)****(d) Available-for-sale financial assets (cont'd.)**

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

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

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 assets 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 i.e., the date that the Group and the Bank commit to purchase or sell the asset.

2.11 Reclassification of financial assets

The Group and the Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group and the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in profit or loss are not reversed.

As at reporting date, the Group and the Bank have not made any such reclassifications of financial assets.

2.12 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 transaction 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 41.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.12 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 (ie. prices) or indirectly (ie. 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 and Reuters.

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Valuation techniques used incorporate assumptions regarding discount rates, interest rate yield curves, estimates of future cash flows and other factors.

Changes in these assumptions could materially affect the fair values derived. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs for the determination of fair value due to the low complexity of the financial instruments held.

2.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously. This is not generally the case with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)

2.14 Impairment of financial assets

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

(a) Trade and other receivables and other financial assets carried at amortised cost

Trade receivables are carried at anticipated realisable values. Impaired accounts are written off after taking into consideration the realisable values of collaterals, if any, when in the judgment of the management, there is no prospect of recovery.

Individual impairment assessment allowances for receivables are made for accounts which are considered doubtful or which have been classified as impaired, net of interest-in-suspense and after taking into consideration any collateral held by the Bank. Collective impairment assessment allowance is made if necessary based on historical loss experience based on a certain percentage of trade receivables (excluding outstanding purchase contracts which are not due for payment), net of individual impairment assessment allowances. When an account is classified as impaired, interest is suspended and is recognised on a cash basis for trade receivables. Interest-in-suspense forms part of the individual impairment assessment allowances.

Other receivables and other financial assets are carried at anticipated realisable values. Impaired accounts are written off after taking into consideration the realisable values of collaterals, if any, when in the opinion of the management, there is no prospect of recovery. An estimate is made for impairment allowance based on review of all outstanding amounts as at reporting date.

In accordance with the Rules of Bursa Malaysia, clients' accounts are classified as non-performing under the following circumstances:

Types of account	Criteria for classification as non-performing
Contra losses	When the account remains outstanding for 16 calendar days or more from the date of contra transaction.
Overdue purchase contracts	When the account remains outstanding from T+3 market days onwards.
Margin accounts	When the value of collateral has fallen below 130% of the outstanding balance.

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.14 Impairment of financial assets (cont'd.)****(b) Unquoted equity securities carried at cost**

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

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 investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and deposit placements maturing less than one month held for the purpose of meeting short term commitments and readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, and excluding monies held in trust for clients and dealers' representatives.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.16 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.17 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 are recognised in the statement of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are measured at amortised cost. The Group and the Bank do not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks and debt securities issued and other borrowed funds.

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 profit or loss.

2.18 Employee benefits**(a) Short term employee 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.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.18 Employee benefits (cont'd.)****(b) Defined contribution plans (cont'd.)**

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(c) Employee share option plans

Employees of the Group receive remuneration in the form of share options of the holding company as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserve over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. The employee share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to capital reserve.

2.19 Revenue and income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

- (a) Gross brokerage fee is recognised upon the execution of trade on behalf of clients, computed based on a pre-determined percentage of the contract value.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****2. Significant accounting policies (cont'd.)****2.19 Revenue and income recognition (cont'd.)**

- (b) Margin income comprise margin interest income and rollover fees. Margin interest income is recognised on an effective interest method except where such margin account is considered non-performing in accordance with Schedule 7A of the Rules of Bursa Malaysia, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised upon receipt until all arrears have been paid. Rollover fees are recognised on an accrual basis. Rollover fees from non-performing margin accounts will be suspended until the accounts are reclassified as performing.
- (c) Gains or losses on disposal of investments are recognised upon confirmation of transactions by the stockbrokers.
- (d) Underwriting, advisory, arrangement and placement fees are recognised as and when services are performed.
- (e) Other revenue earned by the Group are recognised on the following bases:

Dividend income	-	when the right to receive payment is established.
Management fee and rental income	-	accrual basis by reference to the agreements entered.
Other interest income	-	on an accrual basis unless collectibility is in doubt, in which case they are recognised on receipt basis.

2.20 Income tax**(a) 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 at the reporting date.

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

(b) 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.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.20 Income tax (cont'd.)****(b) Deferred tax (cont'd.)**

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, 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
- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

 INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

2. Significant accounting policies (cont'd.)**2.20 Income tax (cont'd.)****(b) Deferred tax (cont'd.)**

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. 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.

2.21 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.22 Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Impairment of merchant bank licence

The Group determines whether merchant bank licence is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGU to which merchant bank licence is 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.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
2. Significant accounting policies (cont'd.)**2.22 Significant accounting judgments and estimates (cont'd.)****(b) Classification of investments**

The Group classifies and accounts for its securities portfolio as follows:

- Securities held-for-trading, to be stated at fair value with gain or loss recognised in profit or loss.
- Securities available-for-sale, to be stated at fair value or cost (where fair value cannot be determined with reasonable certainty) less any impairment loss. Fair value gains or losses are recognised in equity and impairment losses are recognised in profit or loss.
- Securities held-to-maturity, to be stated at amortised cost, less any impairment losses. Amortisation and impairment losses are recognised in profit or loss.

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available in the respective entity within the Group against which the losses and capital allowances can be utilised. Significant management judgment, which will be reviewed periodically, 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.

3. Cash and short-term funds

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	61,760	67,481	61,443	67,312
Money at call and deposits placements maturing within one month	341,458	322,188	341,458	322,188
	<u>403,218</u>	<u>389,669</u>	<u>402,901</u>	<u>389,500</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

3. Cash and short-term funds (cont'd.)

Included in cash and short term funds are monies held in trust for clients and dealer's representatives as follows:

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Money at call and deposits placements maturing within one month	181,823	175,578	181,823	175,578

4. Deposits with financial institutions

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Licensed banks	20,631	1,489	20,631	1,489
Licensed investment banks	-	20,000	-	20,000
	20,631	21,489	20,631	21,489

Included in deposits with financial institutions are monies held in trust for clients and dealer's representatives as follows:

Deposit placements maturing after one month	657	636	657	636
--	-----	-----	-----	-----

5. Securities held-for-trading

	Group and Bank	
	2012	2011
	RM'000	RM'000
At fair value		
Malaysian Government Securities	60,708	-
Bankers' acceptances	194,977	304,060
Bank Negara Malaysia Notes	93,225	49,758
Quoted shares	2,001	-
Quoted private debt securities	10,074	-
	360,985	353,818

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
6. Securities available-for-sale

	Group and Bank	
	2012	2011
	RM'000	RM'000
At fair value, or at cost for certain unquoted securities		
Malaysian Government Securities	254,019	70,973
Malaysian Government Investment Issuance	89,122	-
Cagamas bonds	40,278	60,014
Bank Negara Malaysia Notes	-	149,498
 Quoted securities		
- Shares	145,728	46,247
 Unquoted securities		
- Private debt securities	130,027	195,251
- Shares	2,200	2,200
 Unit trust fund	15,042	-
	<u>676,416</u>	<u>524,183</u>
Less: Impairment loss on securities	<u>(3,053)</u>	<u>(4,704)</u>
	<u>673,363</u>	<u>519,479</u>

The balance of securities that were reclassified out from held-for-trading to available-for-sale in previous year:

	Group and Bank	
	2012	2011
	RM'000	RM'000
At fair value		
Carrying value as at beginning of financial year	3,926	49,282
Disposal of securities	-	(47,215)
Loss on revaluation		
- recognised in AFS revaluation reserves	(881)	(1,082)
Deferred tax under-recognised	-	2,941
Carrying value as at end of financial year	<u>3,045</u>	<u>3,926</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

7. Securities held-to-maturity

	Group and Bank	
	2012	2011
	RM'000	RM'000
At amortised cost		
Negotiable instruments of deposit	200,000	70,000

At 31 January 2012, current market value of securities held-to-maturity is equivalent to their carrying amount.

8. (a) Derivative financial assets

	Group and Bank	
	2012	2011
	RM'000	RM'000
Equity related contracts - options		
Notional amount	78,732	55,244
Fair value	58	1,693
Embedded derivatives		
Notional amount	124,075	147,075
Fair value	6,630	7,859
Total fair value of derivative assets	6,688	9,552

(b) Derivatives financial liabilities**Foreign exchange related contracts**

Notional amount	2,140	-
Fair value/total fair value of derivative liabilities	57	-

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
9. Loans, advances and financing

	Group and Bank	
	2012	2011
	RM'000	RM'000
Share margin financing	360,591	319,135
Term loans	189,649	276,004
Revolving credit	8,706	5,882
Bridging loans	-	59,035
Gross loans, advances and financing	558,946	660,056
Less: Collective assessment allowance	(8,704)	(10,176)
Total net loans, advances and financing	550,242	649,880

Analysis of gross loans, advances and financing

(i) By economic purpose		
Purchase of securities	404,530	473,531
Working capital	79,367	111,469
Others	75,049	75,056
Gross loans, advances and financing	558,946	660,056
(ii) By interest rate sensitivity		
Fixed rate		
- Share margin financing, term loans, revolving credit and bridging loans	558,946	660,056
Gross loans, advances and financing	558,946	660,056
(iii) By type of customer		
Domestic non-bank financial institutions	18,672	42,816
Domestic business enterprises	417,999	377,112
Individuals	122,275	240,128
Gross loans, advances and financing	558,946	660,056
(iv) Movement in impaired loans, advances and financing		
Balance at beginning of financial year	-	-
Classified as impaired during the year	-	-
Recovered during the year	-	-
At end of financial year	-	-

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

9. Loans, advances and financing (cont'd.)**Analysis of gross loans, advances and financing (cont'd.)**

	Group and Bank	
	2012	2011
	RM'000	RM'000
(v) Movements in allowance for losses on loans and financing		
Collective assessment allowance		
Balance at beginning of financial year	10,176	5,117
(Writeback of)/allowance made during the year (Note 30)	(1,472)	5,059
Balance at end of financial year	<u>8,704</u>	<u>10,176</u>
As % of gross loans, advances and financing less individual assessment allowance	<u>1.6%</u>	<u>1.5%</u>

Individual assessment allowance

As at 31 January 2012, there is no individual assessment allowance made as there is no impaired loans during and at the end of the year.

10. Trade receivables

	Group and Bank	
	2012	2011
	RM'000	RM'000
Amount owing by clients	165,279	217,143
Amount owing by brokers	196,574	265,989
	<u>361,853</u>	<u>483,132</u>
Less: Individual assessment allowance	(1,044)	(1,010)
	<u>360,809</u>	<u>482,122</u>

The trade settlement for the amounts owing by clients and brokers is 3 market days according to the Fixed Delivery and Settlement System ("FDSS") trading rules of Bursa Malaysia.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****10. Trade receivables (cont'd.)**

Movements in the allowance for impaired accounts are as follows:

	Group and Bank	
	2012	2011
	RM'000	RM'000
(a) Collective assessment allowances:		
Balance at beginning of financial year	-	259
Allowance written-back during the year (Note 31)	-	(259)
Balance at end of financial year	-	-
(b) Individual assessment allowances:		
Balance at beginning of financial year	1,010	931
Allowance made during the year (including interest-in-suspense)	34	79
Balance at end of financial year	1,044	1,010

The classification of impaired accounts in accordance with Rule 1104.1, Schedule 7A of the Rules of Bursa Malaysia is as follows:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Impaired accounts, classified as doubtful	287	133
Impaired accounts, classified as bad	4,371	3,282
Total impaired accounts	4,658	3,415

11. Other assets

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Interest receivable	7,652	3,810	7,652	3,810
Deposits	6,215	4,691	6,215	4,691
Tax recoverable	8	3,682	-	3,673
Other receivable and prepayments	15,108	5,850	15,108	5,850
	28,983	18,033	28,975	18,024
Less: Individual assessment allowance	(2,286)	(2,431)	(2,286)	(2,431)
	26,697	15,602	26,689	15,593

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****12. Statutory deposit with Bank Negara Malaysia****Group and Bank**

The non-interest bearing statutory deposit is to be maintained by the Bank with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amount of which is determined as a set percentage of total eligible liabilities. As at the reporting date, the statutory deposit maintained with BNM is RM27,165,000 (2011: RM8,834,000).

13. Investment in subsidiary companies

	Bank	
	2012	2011
	RM'000	RM'000
Unquoted shares in local corporations, at cost	*	*

The details of the subsidiary companies, all incorporated in Malaysia, are as follows:

Name of company	Effective percentage of ownership		Principal activities
	2012	2011	
	%	%	
Direct subsidiaries			
ECML Nominees (Tempatan) Sdn. Bhd.	100	100	Provision of nominee services for local clients
ECML Nominees (Asing) Sdn. Bhd.	100	100	Provision of nominee services for foreign clients
Avenue Kestrel Sdn. Bhd.	100	100	Dormant

* Denotes RM53.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad**
(Incorporated in Malaysia)**14. Amount owing to related companies**

	Group and Bank	
	2012	2011
	RM'000	RM'000
Amount owing to related companies	234	234

The amounts owing to related companies represent payments made on behalf and unsecured advances, which are interest free and repayable on demand.

15. Deferred tax (liabilities)/assets

	Group and Bank	
	2012	2011
	RM'000	RM'000
At beginning of the financial year	10,687	27,711
Recognised in the profit or loss (Note 33)	(11,553)	(20,872)
Transfer to equity	-	-
Recognised in equity	(6,604)	3,848
At end of the financial year	(7,470)	10,687

All movements in deferred tax assets and liabilities have been recognised in profit or loss, except for those relating to AFS revaluation reserves, where the movement is recognised in equity. The components and movements of deferred tax assets and liabilities during the financial year are as follows:

	Unused tax losses	AFS revaluation reserve	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000
2012				
At beginning of the financial year	6,429	(78)	4,336	10,687
Recognised in profit or loss	(6,429)	-	(5,124)	(11,553)
Recognised in equity	-	(6,604)	-	(6,604)
At end of the financial year	-	(6,682)	(788)	(7,470)
2011				
At beginning of the financial year	29,185	(3,926)	2,452	27,711
Recognised in income statement	(22,756)	-	1,884	(20,872)
Recognised in equity	-	3,848	-	3,848
At end of the financial year	6,429	(78)	4,336	10,687

The unutilised tax losses of the Group is 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.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

16. Property, plant and equipment

Group and Bank Cost	Freehold land RM'000	Building RM'000	Furniture and fittings and and office equipment RM'000	Computers RM'000	Office renovation RM'000	Motor vehicles RM'000	Total RM'000
At 1 February 2011	1,750	6,782	6,140	26,069	11,095	2,027	53,863
Additions	-	-	1,916	2,181	4,990	842	9,929
Transfer to holding company	-	-	-	-	(2,609)	-	(2,609)
Write-offs	-	-	(2,111)	(4,895)	(10)	-	(7,016)
Disposals	(1,750)	(6,282)	(48)	(528)	-	-	(8,608)
At 31 January 2012	-	500	5,897	22,827	13,466	2,869	45,559

Accumulated
depreciation

At 1 February 2011	-	1,771	4,230	19,287	2,147	894	28,329
Charge during the year (Note 28)	-	103	709	2,635	1,005	406	4,858
Write-offs	-	-	(2,107)	(4,884)	(4)	-	(6,995)
Disposals	-	(1,771)	(48)	(528)	-	-	(2,347)
At 31 January 2012	-	103	2,784	16,510	3,148	1,300	23,845

Net carrying amount

At 31 January 2012	-	397	3,113	6,317	10,318	1,569	21,714
--------------------	---	-----	-------	-------	--------	-------	--------

53

155

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

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

Group and Bank	Freehold land RM'000	Building RM'000	Furniture and fittings and and office equipment RM'000	Computers RM'000	Office renovation RM'000	Motor vehicles RM'000	Total RM'000
Cost							
At 1 February 2010	1,750	6,782	10,708	20,840	11,112	2,407	53,599
Additions	-	-	1,534	5,735	7,120	-	14,389
Write-offs	-	-	(5,994)	(185)	(7,137)	-	(13,316)
Disposals	-	-	(108)	(321)	-	(380)	(809)
At 31 January 2011	1,750	6,782	6,140	26,069	11,095	2,027	53,863
Accumulated depreciation							
At 1 February 2010	-	1,635	9,470	17,819	6,870	689	36,483
Charge during the year (Note 28)	-	136	591	1,974	852	319	3,872
Write-offs	-	-	(5,723)	(185)	(5,575)	-	(11,483)
Disposals	-	-	(108)	(321)	-	(114)	(543)
At 31 January 2011	-	1,771	4,230	19,287	2,147	894	28,329
Net carrying amount							
At 31 January 2011	1,750	5,011	1,910	6,782	8,948	1,133	25,534

54

156

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
17. Intangible assets

	Group and Bank	
	2012	2011
	RM'000	RM'000
Merchant bank licence		
At beginning/end of year	52,500	52,500

The merchant bank licence represents contribution by the Bank to BNM to carry on merchant banking business and is considered to have indefinite useful life, which is not amortised and is assessed for impairment annually.

During the financial year, the Bank assessed the recoverable amount of merchant bank licence, and determined that the merchant bank licence are sustainable based on the value in use calculation using cash flow projections of a five-year approved budget and a terminal value beyond the five-year period with an assumed growth rate of 5% in perpetuity at a discount rate of 8% (2011: 8%).

18. Deposits from customers

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
<u>By type of deposits:</u>				
Fixed deposits	1,093,352	1,071,457	1,097,684	1,075,698
Negotiable instrument deposits	16,713	3,666	16,713	3,667
	<u>1,110,065</u>	<u>1,075,123</u>	<u>1,114,397</u>	<u>1,079,365</u>
<u>By type of customers:</u>				
Government and statutory bodies	116,300	70,000	116,300	70,000
Domestic business enterprises	189,236	202,230	193,568	206,472
Individuals	27,066	22,133	27,066	22,133
Non-bank financial institutions	776,863	780,760	776,863	780,760
Domestic other entities	600	-	600	-
	<u>1,110,065</u>	<u>1,075,123</u>	<u>1,114,397</u>	<u>1,079,365</u>

19. Deposits and placements of banks and other financial institutions

	Group and Bank	
	2012	2011
	RM'000	RM'000
Licensed banks	266,409	201,008
Licensed investment banks	74,962	-
	<u>341,371</u>	<u>201,008</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad**
(Incorporated in Malaysia)**20. Trade payables**

	Group and Bank	
	2012	2011
	RM'000	RM'000
Amount owing to clients	102,743	178,563
Amount owing to brokers	221,589	248,295
Client's trust monies	158,546	149,742
	<u>482,878</u>	<u>576,600</u>

The trade settlement for the amounts owing to clients and brokers is 3 market days according to the Fixed Delivery and Settlement System ("FDSS") trading rules of Bursa Malaysia.

21. Other liabilities

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Accruals and deposits received	6,268	12,213	6,238	12,184
Remisiers' and dealers' trust accounts	20,710	19,531	20,710	19,531
Other payables	44,406	71,445	44,406	71,445
	<u>71,384</u>	<u>103,189</u>	<u>71,354</u>	<u>103,160</u>

22. Share capital

	Number of		Amount	
	shares of RM1 each			
Group and Bank	2012	2011	2012	2011
	Units'000	Units'000	RM'000	RM'000
Authorised	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>
Issued and fully paid-up	<u>513,000</u>	<u>513,000</u>	<u>513,000</u>	<u>513,000</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

23. Reserves

	Note	Group		Bank	
		2012	2011	2012	2011
		RM'000	RM'000	RM'000	RM'000
Non-distributable:					
Equity compensation reserve	(a)	212	612	212	612
Available-for-sale revaluation reserve	(b)	20,046	234	20,046	234
Statutory reserve	(c)	80,787	65,720	80,787	65,720
Distributable:					
Retained profits	(d)	73,678	73,446	69,055	69,055
		<u>174,723</u>	<u>140,012</u>	<u>170,100</u>	<u>135,621</u>

- (a) The equity compensation reserve relates to the Bank's share of Employees Share Option Scheme ("ESOS") costs arising from the ESOS of the holding company which was approved by the shareholders of the holding company on 1 December 2005 at an Extraordinary General Meeting.

The holding company's ESOS was implemented on 4 January 2008 and is to be in force for a period of 10 years from the date of implementation. The main features of the ESOS are disclosed in the audited financial statements of the holding company.

As at 31 January 2012, there had not been issuance of new shares as there had not been exercise of the ESOS options granted.

A summary of the movements in the number of ESOS granted to employees of the Bank are as follows:

	2012	2011
	Number of share options '000	Number of share options '000
At 1 February 2011/2010	11,344	15,572
Granted	4,000	-
Lapsed	(4,246)	(4,228)
As at 31 January 2012/2011	<u>11,098</u>	<u>11,344</u>
Exercisable as at 31 January	<u>9,098</u>	<u>11,344</u>

- (b) Available-for-sale revaluation reserve represents unrealised gains or losses arising from changes in fair values of securities classified as available-for-sale.
- (c) The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****23. Reserves (cont'd.)**

- (d) In the past, Malaysian companies adopt 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 transition 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 Bank has elected for the irrevocable option to disregard the 108 balance as at 31 January 2009. Hence, the Bank distributed dividends out of its entire retained earnings as at 31 January 2012 and 2011 under the single-tier system.

24. Interest income

	Group and Bank	
	2012	2011
	RM'000	RM'000
Loans and advances	44,680	39,705
Stockbroking clients	358	436
Short-term funds and deposits with financial institutions	12,423	10,721
Securities:		
- Held-for-trading	510	-
- Available-for-sale	15,214	11,030
- Held-to-maturity	4,886	899
Others	108	6
	<u>78,179</u>	<u>62,797</u>
Accretion of discounts less amortisation of premium	3,892	1,453
	<u>82,071</u>	<u>64,250</u>

25. Interest expense

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deposits from customers	41,831	32,698	41,831	32,805
Deposits from banks and other financial institutions	4,976	2,990	5,108	2,990
Others	168	-	168	-
	<u>46,975</u>	<u>35,688</u>	<u>47,107</u>	<u>35,795</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

26. Non-interest income

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
<u>Fee income</u>				
- Fees on loans and advances	5,716	5,246	5,716	5,246
- Corporate advisory fees	2,150	925	2,150	925
- Underwriting commissions	-	1,288	-	1,288
- Net brokerage fee	47,303	44,228	47,303	44,228
- Other fee income	1,190	2,427	992	2,276
	<u>56,359</u>	<u>54,114</u>	<u>56,161</u>	<u>53,963</u>
<u>Investment and trading income</u>				
Net gain arising from securities held-for-trading				
- Net gain on disposal	12,061	14,287	12,061	14,287
- Unrealised revaluation gain	307	182	307	182
- Gross dividend income	24	29	24	29
	<u>12,392</u>	<u>14,498</u>	<u>12,392</u>	<u>14,498</u>
Net gain arising from securities available-for-sale				
- Net gain on disposal	9,788	58,127	9,788	58,127
- Gross dividend income	1,957	9,396	1,957	9,396
	<u>11,745</u>	<u>67,523</u>	<u>11,745</u>	<u>67,523</u>
Net gain arising from derivatives				
- Net gain on disposal	1,938	2,114	1,938	2,114
- Unrealised revaluation (loss)/gain	(1,691)	1,569	(1,691)	1,569
	<u>247</u>	<u>3,683</u>	<u>247</u>	<u>3,683</u>
Gain on foreign exchange transactions (net)	3,751	3,703	3,751	3,703
Total non-interest income	<u>84,494</u>	<u>143,521</u>	<u>84,296</u>	<u>143,370</u>

27. Other non-operating income

	Group and Bank	
	2012	2011
	RM'000	RM'000
Rental income	206	208
Gain/(loss) on disposal of property, plant and equipment	2,398	(11)
Others	1,390	1,443
	<u>3,994</u>	<u>1,640</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad**
(Incorporated in Malaysia)**28. Operating expenses**

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
<u>Personnel expenses</u>				
Salaries, allowance and bonus	35,907	39,165	35,907	39,165
Cost arising from ESOS	(400)	(314)	(400)	(314)
Other personnel costs	7,535	6,897	7,535	6,897
	<u>43,042</u>	<u>45,748</u>	<u>43,042</u>	<u>45,748</u>
<u>Establishment costs</u>				
Depreciation of property, plant and equipment (Note 16)	4,858	3,872	4,858	3,872
Rental of premises	5,753	3,828	5,753	3,828
Rental of network and equipment	4,295	3,692	4,295	3,692
Property, plant and equipment written off	21	1,833	21	1,833
Other establishment costs	3,524	4,762	3,524	4,762
	<u>18,451</u>	<u>17,987</u>	<u>18,451</u>	<u>17,987</u>
<u>Marketing and communication expenses</u>				
Advertising expenses	278	690	278	690
Entertainment	1,472	1,271	1,472	1,271
Other marketing expenses	227	27	227	27
	<u>1,977</u>	<u>1,988</u>	<u>1,977</u>	<u>1,988</u>
<u>Administrative and general expenses</u>				
Auditors' remuneration:				
- statutory audit	138	138	132	132
- non-audit	83	-	83	-
Legal and professional fees	2,913	1,356	2,905	1,349
Licence fees	377	429	377	429
Insurance	367	373	367	373
Telecommunication expenses	560	582	560	582
Travelling and accommodation	848	380	848	380
Others	12,671	10,578	12,668	10,572
	<u>17,957</u>	<u>13,836</u>	<u>17,940</u>	<u>13,817</u>
Total operating expenses	<u>81,427</u>	<u>79,559</u>	<u>81,410</u>	<u>79,540</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

29. CEO and Directors' remuneration

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Non-executive Directors:				
Fees	345	366	345	366
Other remuneration	132	152	132	152
	<u>477</u>	<u>518</u>	<u>477</u>	<u>518</u>

The total remuneration of the directors of the Bank during the financial year fall within the following bands:

	Number of directors	
	2012	2011
Non-executive directors:		
Below RM50,000	-	1
RM50,000 to RM100,000	6	6

Breakdown of remuneration by individual directors are as follows:

	Fees	Meeting Allowance	Total
	RM'000	RM'000	RM'000
2012			
Dato' Mohd Ali bin Abd Samad	65	20	85
Datuk Kamarudin bin Md Ali	65	24	89
En Mahadzir bin Azizan	60	24	84
Mr Lim Kian Onn	45	20	65
Dato' Othman bin Abdullah	65	24	89
Mr Lum Sing Fai	45	20	65
	<u>345</u>	<u>132</u>	<u>477</u>
2011			
Dato' Mohd Ali bin Abd Samad	65	18	83
Datuk Kamarudin bin Md Ali	65	24	89
En Mahadzir bin Azizan	60	29	89
Mr Lim Kian Onn	45	25	70
Dato' Othman bin Abdullah	65	24	89
Mr Lum Sing Fai	45	25	70
Dato' Seri Kalimullah bin Masheerul Hassan	21	7	28
	<u>366</u>	<u>152</u>	<u>518</u>

Total remuneration (including benefit-in-kind) of the CEO who is not a director is RM832,694 (2011: Nil).

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

30. (Writeback of)/allowance for losses on loans, advances and financing

	Group and Bank	
	2012	2011
	RM'000	RM'000
Collective assessment allowances on loans, advances and financing:		
- (Writeback of)/allowances made during the financial year (Note 9(v))	<u>(1,472)</u>	<u>5,059</u>

31. Writeback of bad and doubtful debts

	Group and Bank	
	2012	2011
	RM'000	RM'000
Trade Receivables		
Collective assessment allowance		
- Writeback during the financial year (Note 10(a))	<u>-</u>	<u>(259)</u>
Individual assessment allowance		
- Allowances made during the financial year	7	36
- Writeback during the financial year	<u>(89)</u>	<u>-</u>
	<u>(82)</u>	<u>36</u>
Bad debts:		
- Recovered	<u>(6,923)</u>	<u>(79)</u>
	<u>(7,005)</u>	<u>(302)</u>
Other receivables		
Individual assessment allowance:		
- Allowances made during the financial year	-	20
- Writeback during the financial year	<u>(144)</u>	<u>-</u>
	<u>(144)</u>	<u>20</u>
Bad debts:		
- Written-off	<u>656</u>	<u>-</u>
	<u>512</u>	<u>20</u>
	<u>(6,493)</u>	<u>(282)</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X
ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
32. (Writeback of)/allowances for impairment on investments

	Group and Bank	
	2012	2011
	RM'000	RM'000
(Writeback of)/allowance for impairment:		
- Private debt securities		
• Available-for-sale	<u>(1,651)</u>	<u>4,704</u>

33. Income tax expense

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- Current year's provision	2,642	63	2,561	-
- Underprovision of tax in prior years	<u>7,212</u>	<u>-</u>	<u>7,212</u>	<u>-</u>
	<u>9,854</u>	<u>63</u>	<u>9,773</u>	<u>-</u>
Deferred taxation:				
- Current year's provision	10,218	21,473	10,218	21,473
- Under/(over) provision of deferred tax in prior years	<u>1,335</u>	<u>(601)</u>	<u>1,335</u>	<u>(601)</u>
	<u>21,407</u>	<u>20,935</u>	<u>21,326</u>	<u>20,872</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****33. Income tax expense (cont'd.)**

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

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	<u>51,773</u>	<u>84,683</u>	<u>51,460</u>	<u>84,444</u>
Tax at Malaysian statutory rate of 25% (2011: 25%)	12,943	21,171	12,865	21,111
Tax effects of:				
Non-allowable expenses	578	854	575	851
Non-taxable income	(661)	(489)	(661)	(489)
Underprovision of tax in prior years	7,212	-	7,212	-
Under/(over) provision of deferred tax in prior years	<u>1,335</u>	<u>(601)</u>	<u>1,335</u>	<u>(601)</u>
	<u>21,407</u>	<u>20,935</u>	<u>21,326</u>	<u>20,872</u>

34. Earnings per ordinary share

The basic and diluted earnings per ordinary share are calculated by dividing the Group's profit after taxation of RM30,366,000 (2011:RM63,748,000), by the weighted average number of ordinary shares in issue during the year of 513,000,000 (2011: 513,000,000).

35. Dividends

The Bank has paid an interim single-tier dividend of 6.20 sen per share amounting to RM31,786,000 in respect of financial year ended 31 January 2011.

The directors have declared an interim single-tier dividend of 2.94 sen per share on 513,000,000 ordinary shares, amounting to RM15,067,000 for the financial year ended 31 January 2012. The directors do not propose any final dividend for the financial year ended 31 January 2012.

 INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
36. Capital adequacy and capital management

- (a) The capital base and risk-weighted assets ('RWA') as set out below are disclosed in accordance with the Risk-Weighted Capital Adequacy Framework (Basel II) issued by Bank Negara Malaysia.

	2012	2011
	%	%
<u>Before deducting proposed dividend</u>		
Core capital ratio	50.45	81.83
Risk-weighted capital ratio	51.11	83.14
<u>After deducting proposed dividend</u>		
Core capital ratio	50.45	81.83
Risk-weighted capital ratio	51.11	83.14

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from balances of the Bank only.

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework (RWCAR-Basel II). The Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8% (2011: 8%) for the risk-weighted capital ratio.

Capital management process

The Bank has in place an Internal Capital Adequacy Assessment Process (ICAAP) which is largely conceptualised from the BNM's Concept Paper on ICAAP (Basel II - Pillar 2). The computation of the internal RWCR requirement is derived from using a simple aggregation approach and stress testing methodologies that is in line with the nature and complexity of the Bank's business operations. The application of ICAAP is based on stress test methodologies underpinned by the following structured approach:

- i) assess the capital buffer requirements over a short-term period under a stressed event.
- ii) address major risks not addressed under Pillar 1.
- iii) assess the capital buffer requirements based on the business activities generated under the Bank's Business Plans, usually over a period of 1 to 3 years.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)**36. Capital adequacy and capital management (cont'd.)**

(b) The components of Tier I and Tier II Capital of the Bank are as follows:

	Bank	
	2012	2011
	RM'000	RM'000
<u>Tier I Capital</u>		
Paid-up share capital	513,000	513,000
Retained profits	69,055	69,055
Statutory reserve	80,787	65,720
Other reserves	212	612
	<u>663,054</u>	<u>648,387</u>
Less: Deferred tax assets*	-	(10,765)
Total Tier I Capital (a)	<u>663,054</u>	<u>637,622</u>
<u>Tier II Capital</u>		
Collective assessment for loans, advances and financing	8,704	10,176
Total Tier II Capital (b)	<u>8,704</u>	<u>10,176</u>
Total capital (a) + (b)	671,758	647,798
Less: Investment in subsidiaries	-	-
Capital base	<u>671,758</u>	<u>647,798</u>
Total risk-weighted assets	<u>1,314,270</u>	<u>779,192</u>
* Excludes deferred tax on AFS reserve.		
	2012	2011
	%	%
Core capital ratio	50.45	81.83
Risk-weighted capital ratio	<u>51.11</u>	<u>83.14</u>

(c) The breakdown of risk-weighted assets by each major risk category is as follows:

	Bank	
	2012	2011
	RM'000	RM'000
Credit risk	511,769	401,250
Market risk	528,595	182,207
Operational risk	273,906	195,735
	<u>1,314,270</u>	<u>779,192</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
36. Capital adequacy and capital management (cont'd.)

- (c) The breakdown of risk-weighted assets by each major risk category is as follows:
(cont'd.)

Detailed information on the risk exposures above, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures and is published in the Bank's website, http://www.ecmlibra.com/Investor_Relations_FinResults.asp.

37. Commitments

	Group and Bank	
	2012	2011
	RM'000	RM'000
Capital Commitments		
Approved and contracted for:		
Purchase of property, plant and equipment	2,336	5,722
Non-cancellation operating lease commitments		
Future minimum rentals payable:		
Not more than 1 year	6,230	1,901
Later than 1 year and not later than 5 years	5,389	2,316
	<u>11,619</u>	<u>4,217</u>

38. Commitments and contingencies

	Group and Bank		
	Nominal	* Credit	Risk-
	amount	equivalent	weighted
	RM'000	amount	amount
		RM'000	RM'000
As at 31 January 2012			
Commitments to extend credits with maturity			
of less than 1 year:			
- margin facilities	492,574	98,515	68,415
- other term loan facilities	60,667	13,183	32,462
Foreign exchange related contracts	5,814	91	35
	<u>559,055</u>	<u>111,789</u>	<u>100,912</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

38. Commitments and contingencies (cont'd.)

	Group and Bank		
	Nominal	* Credit	Risk-
	amount	equivalent	weighted
	RM'000	amount	amount
		RM'000	RM'000
As at 31 January 2011			
Commitments to extend credits with maturity of less than 1 year:			
- margin facilities	269,365	53,873	46,872
- other term loan facilities	47,828	9,566	9,566
	<u>317,193</u>	<u>63,439</u>	<u>56,438</u>

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

39. Significant related party transactions and balances

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Bank had the following transactions with related parties during the financial year:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Transactions with a company in which a director and shareholder of the holding company has interest in:		
- Gross brokerage income	(22)	-
- Interest income	(2,203)	-
- Project management fees	266	263
- Interest expenses payable	309	311
- Purchase of computer software	-	519
- Rental expenses	<u>2,207</u>	<u>616</u>

The directors of the Bank are of the opinion that the above transactions have been entered into in the normal course of business and had been established under terms that are no less favourable than those arranged with independent third parties.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****39. Significant related party transactions (cont'd.)****(b) Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Fees and meeting allowances	477	518	477	518
Short-term employee benefits	3,391	2,078	3,391	2,078
Defined contribution plan	441	257	441	257
Share-based payment	186	128	186	128
	<u>4,495</u>	<u>2,981</u>	<u>4,495</u>	<u>2,981</u>

Included in the total key management personnel are:

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration (Note 29)	<u>477</u>	<u>518</u>	<u>477</u>	<u>518</u>

(c) Credit transactions and exposures with connected parties

	Group and Bank	
	RM'000	RM'000
Outstanding credit exposures with connected parties	<u>50,000</u>	<u>50,000</u>
Percentage of outstanding credit exposures with connected parties		
- as a proportion of total credit exposures	4.5%	5.1%
- which is non-performing or in default	-	-

The above disclosure on Credit Transactions and Exposures with Connected Parties is presented in accordance with para 9.1 of BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which became effective on 1 January 2008.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies**Overview**

The Group's and the Bank's business activities involve the use of financial instruments. These activities expose the Group and the Bank to a variety of financial risks, mainly credit risk, market risk and liquidity risk.

The Group's and the Bank's financial risks are managed by the Board of Directors, through the Board Risk Management Committee ("BRMC") which oversees the establishment of enterprise-wide risk management policies and processes.

Credit risk

Credit risk is the potential loss of revenue as a result of failure by the borrowers or counter parties to meet their contractual financial obligations. As the Group's and the Bank's primary business is in investment banking, the Group's and the Bank's exposure to credit risk is primarily from its lending and financing to retail consumers, Small and Medium Enterprises ("SMEs"), and credit risk is the risk of loss arising from the actual or perceived declining credit quality and actual default of an obligor, counterparty or corporate customers as well as underwriting commitments. Trading and investing the surplus funds of the Group and the Bank, such as trading and holding of debt securities, settlement of transactions, also expose the Group and Bank to credit risk and counterparty risk.

Risk governance

The Board has appointed the Board Credit Committee ("BCC") to oversee all aspects of credit risk management in the Bank with the support of the Credit Approval Executive Committee ("CAEC"). The BCC comprises board members who have veto power to reject credits or modify the terms of credits that have been approved by the CAEC. It reviews and approves credit risk management policies as recommended by CAEC.

The CAEC is tasked to formulate credit risk management policies, review and approve credit applications in accordance with the Bank's prescribed approval limits as laid down by the BCC. The CAEC is represented by members of senior management of the Bank including the Head of Credit Control Department ("CCD").

Risk management approach**(a) Lending to Retail consumers and Small and Medium Enterprises ("SMEs")**

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record, the current repayment capacity of the customer and types of facilities including the collaterals offered. The credit approving authority has the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer, facility type and collaterals offered is included in the loan application.

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
40. Financial risk management objectives and policies (cont'd.)**Credit risk (cont'd.)**Risk management approach (cont'd.)**(b) Lending to Corporate and Institutional customers**

Credit granting to corporate and institutional customers is individually underwritten. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, or other credit support such as equity options.

(c) Credit risk from trading and investment activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of specific trading limits including instrument type and counterparty limits which are specifically approved by the Board. In addition, the Group has in place various management action triggers and related guidelines under the Credit Risk Management Framework to avoid undue concentration of credit risk.

(d) Counterparty credit risk on derivative financial instruments

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Group and the Bank has a gain in a contract.

There have been no changes since the end of the previous financial year in respect of the following:

- (i) the types of derivative financial contracts entered into and the rationale for entering into such contracts, as well as the expected benefits accruing from these contracts;
- (ii) the risk management policies in place for mitigating and controlling the risks associated with these financial derivative contracts; and
- (iii) the related accounting policies.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X
ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
40. Financial risk management objectives and policies (cont'd.)**Credit risk (cont'd.)****Risk management approach (cont'd.)****(d) Counterparty credit risk on derivative financial instruments (cont'd.)**

As at 31 January 2012, the amount of credit risk in the Group and the Bank, measured in terms of the cost to replace the profitable contracts was RM202,807,000 (2011: RM202,319,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices. Derivative financial instruments at their contractual and fair value amounts are as follows:

Group and Bank

	Notional amount RM'000	Fair value RM'000
2012		
Equity related contracts, options purchased and embedded derivatives	<u>202,807</u>	<u>6,688</u>
2011		
Equity related contracts, options purchased and embedded derivatives	<u>202,319</u>	<u>9,552</u>

(e) Independent credit assessment

Independent credit assessments are performed on large credits to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to the BRMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the risk profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers.

(i) Credit risk exposures and credit risk concentration

The following table presents the Group's exposure to credit risk of financial assets before the effect of credit risk mitigation, broken down by the relevant category and class of financial asset against the relevant industry and maturity. For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****40. Financial risk management objectives and policies (cont'd.)****Credit risk (cont'd.)****Risk management approach (cont'd.)****(e) Independent credit assessment****(i) Credit risk exposures and credit risk concentration (cont'd.)**

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

The Group's credit risk from financial instruments are all located in Malaysia.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Credit risk (cont'd.)

Risk management approach (cont'd.)

(e) Independent credit assessment (cont'd.)

(i) Credit risk exposures and credit risk concentration (cont'd.)

By class of financial instrument

Group 2012	Government and Central Banks RM'000	Financial services RM'000	Transport and business services RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction & real estate RM'000	Utilities RM'000	Consumer Loans RM'000	Purchase of securities RM'000	Total RM'000
On-Balance Sheet financial assets									
Cash and short-term funds	52	403,166	-	-	-	-	-	-	403,218
Deposits with financial institutions	-	20,631	-	-	-	-	-	-	20,631
Securities held-for-trading	153,933	200,674	729	5,537	112	-	-	-	360,985
Securities available-for-sale	370,886	92,710	3,550	9,268	186,907	10,042	-	-	673,363
Securities held-to-maturity	-	200,000	-	-	-	-	-	-	200,000
Derivative financial assets	-	52	-	-	6,630	-	6	-	6,688
Gross loans, advances and financing	-	18,672	47,307	295,643	75,049	-	-	122,275	558,946
Statutory deposits with Bank Negara Malaysia	27,165	-	-	-	-	-	-	-	27,165
Trade receivables	-	196,574	-	-	-	-	-	164,235	360,809
Total	552,036	1,132,479	51,586	310,448	268,698	10,042	6	286,510	2,611,805
Commitments and contingencies									
Commitments (credit equivalent amount)	-	10,070	1,750	1,133	-	-	21	98,815	111,789
Total	552,036	1,142,549	53,336	311,581	268,698	10,042	27	385,325	2,723,594

74

176

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Credit risk (cont'd.)

Risk management approach (cont'd.)

(e) Independent credit assessment (cont'd.)

(i) Credit risk exposures and credit risk concentration (cont'd.)

By class of financial instrument (cont'd.)

Bank 2011	Government and Central Banks RM'000	Financial services RM'000	Transport and business services RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction & real estate RM'000	Utilities RM'000	Consumer Loans RM'000	Purchase of securities RM'000	Total RM'000
On-Balance Sheet financial assets									
Cash and short-term funds	64,954	324,546	-	-	-	-	-	-	389,500
Deposits with financial institutions	-	21,489	-	-	-	-	-	-	21,489
Securities held-for-trading	49,758	304,060	-	-	-	-	-	-	353,818
Securities available-for-sale	250,872	102,773	13,104	10,560	115,479	26,691	-	-	519,479
Securities held-to-maturity	-	70,000	-	-	-	-	-	-	70,000
Derivative financial assets	-	-	-	1,651	7,901	-	-	-	9,552
Gross loans, advances and financing	-	42,815	106,313	195,745	75,055	-	-	240,128	660,056
Statutory deposits with Bank Negara Malaysia	8,834	-	-	-	-	-	-	-	8,834
Trade receivables	-	265,989	-	-	-	-	-	216,133	482,122
Total	374,418	1,131,672	119,417	207,956	198,435	26,691	-	456,261	2,514,850
Commitments and contingencies									
Commitments (credit equivalent amount)	-	4,000	803	810	-	-	-	57,826	63,439
Total	374,418	1,135,672	120,220	208,766	198,435	26,691	-	514,087	2,578,289

75

177

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)**Credit risk (cont'd.)**Risk management approach (cont'd.)**(e) Independent credit assessment (cont'd.)****(i) Credit risk exposures and credit risk concentration (cont'd.)**

Our loans and financing are mainly secured by collaterals in cash, shares or properties.

(ii) Credit quality of gross loans and advances

Gross loans, advances and financing are analysed as follows:

	Group and Bank 2012 RM'000	Group and Bank 2011 RM'000
Neither past due nor impaired	558,946	660,056
Past due but not impaired	-	-
Impaired	-	-
	<u>558,946</u>	<u>660,056</u>

(a) Neither past due nor impaired

Gross loans, advances and financing which are neither past due nor impaired are analysed as follows:

	Group and Bank 2012 RM'000	Group and Bank 2011 RM'000
Retail loans/financing	122,275	240,128
Corporate loans/financing	436,671	419,928
	<u>558,946</u>	<u>660,056</u>

(b) Past due but not impaired

Past due but not impaired loans are loans where the customer has failed to make a principal or interest payment when contractually due, and includes loans, advances and financing which are due one or more days after the contractual due date but less than three months.

As at 31 January 2012, there are no balances which are past due but not impaired (2011: Nil).

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
40. Financial risk management objectives and policies (cont'd.)**Credit risk (cont'd.)**Risk management approach (cont'd.)

(e) Independent credit assessment (cont'd.)

(ii) Credit quality of gross loans and advances (cont'd.)

(c) Impaired loans

For all loans that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria that the Group use to determine that there is objective evidence of impairment include:

- (a) the principal or interest or both is past due for more than 90 days or 3 months;
- (b) the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, whereby the facility or borrower exhibits credit quality weaknesses arising from the Bank's internal credit risk rating assessment exercise; or
- (c) for loan facilities with repayments of principal or interest or both that is scheduled on intervals of 3 months or longer, the loan is classified as impaired as soon as a default occurs unless there are strong mitigating factors. However, should the facility remains past due for a further 90 days or 3 months, the loan and financing is immediately classified as impaired.

As at 31 January 2012, there are no impaired loans (2011: Nil).

(d) Rescheduled/restructured loans, advances and financing

Rescheduling/restructuring loans and financing include extended payment arrangements, and the modification and deferral of payments.

At 31 January 2012, the outstanding amount of restructured loans is RM8,354,971 (2011: RM9,970,951).

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)**Credit risk (cont'd.)**Risk management approach (cont'd.)**(e) Independent credit assessment (cont'd.)****(ii) Credit quality of gross loans and advances (cont'd.)**

- (e) The credit risk of financial asset of the Group and the Bank is mitigated by the collaterals held against the financial asset.**

No loans, advances and financing has subject to individuals assessment impairment review as at the current and previous financial year end. The collateral mitigates credit risk and would reduce the extent of impairment allowance for the asset subject to impairment review.

For the trade receivables, individual assessment allowances of the Group and Bank as at the date of the statements of financial position would have been higher by approximately RM3,614 (2011: RM2,405) without the collateral held.

(f) Repossessed collateral

These are assets obtained by taking possession of collateral held as security against loans, advances and financing.

Reposessed collateral are sold as soon as practicable. Repossessed collateral are recognised in Other Assets on the statement of financial position. The Group and the Bank do not occupy reposessed properties for its business use.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Credit risk (cont'd.)

Risk management approach (cont'd.)

(e) Independent credit assessment (cont'd.)

(iii) Credit quality of financial investments

Set out below are analyses of rated financial investments analysed by ratings from external credit ratings agencies:

Group and Bank	Financial assets Placements with financial institutions*			Financial assets Held-for-trading			Financial investments Available-for-sale			Financial investments Held-to-maturity			Total RM'000
	At amortised cost RM'000	At fair value RM'000	At fair value RM'000	At amortised cost RM'000	At fair value RM'000	At fair value RM'000	At amortised cost RM'000	At fair value RM'000	At amortised cost RM'000	At fair value RM'000	At amortised cost RM'000	At fair value RM'000	
2012													
AAA+ to AA-	317,089	-	-	-	205,742	-	-	106,058	200,000	-	-	-	828,889
A+ to A-	20,000	-	-	-	-	-	-	10,282	-	-	-	-	30,282
Not rated	-	-	-	-	153,933	-	-	343,141	-	-	-	-	497,074
Unrated	25,000	-	-	-	1,310	-	-	213,882	-	-	-	-	240,192
	362,089	-	-	-	360,985	-	-	673,363	200,000	-	-	-	1,596,437
2011													
AAA+ to AA-	153,777	-	-	-	304,060	-	-	165,475	70,000	-	-	-	693,312
A+ to A-	20,000	-	-	-	-	-	-	28,705	-	-	-	-	48,705
Not rated	64,900	-	-	-	49,758	-	-	220,471	-	-	-	-	335,129
Unrated	105,000	-	-	-	-	-	-	104,828	-	-	-	-	209,828
	343,677	-	-	-	353,818	-	-	519,479	70,000	-	-	-	1,286,974

* Comprise money at call and deposits placed.

79

181

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)**Credit risk (cont'd.)**Risk management approach (cont'd.)**(e) Independent credit assessment (cont'd.)****(iii) Credit quality of financial investments (cont'd.)****Impairment of Private Debt Securities**

The Group determines that there is objective evidence of impairment of private debt securities when a default occurs upon a breach of contractual repayment schedule or a rating downgrade may be considered as impaired. However, securities that are rated by external rating agencies shall be immediately classified as impaired when it has been rated as "D" (RAM, MARC or its equivalent).

Market risk

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market prices. Market risk is the risk that the Bank's earnings and capital, or its ability to meet its business objectives, will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices and/or credit spreads.

Risk governance

The Group Risk Management Department ("GRMD") supports the BRMC in market risk management oversight. The GRMD reviews the Group's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risks remain within established risk tolerance. The market risk of the Group is identified into traded market risk and non-traded market risk.

Types of market risk**(i) Traded market risk**

Traded market risk, primarily the interest rate risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk measurement approach

The Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies.

INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)
40. Financial risk management objectives and policies (cont'd.)**Market risk (cont'd.)**Types of market risk (cont'd.)(i) **Traded market risk (cont'd.)***Risk measurement approach (cont'd.)*

The Group's traded market risk for its interest-sensitive fixed income instruments is measured by the present value of a one basis point change ("PV01") and is monitored independently by the GRMD on a daily basis against approved market risk limits. In addition, Treasury Back-Office Department is responsible for the daily mark-to-market valuation of fixed income securities while Middle Office under GRMD monitors and reports on limit excesses. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by BRMC. Changes to market risk limits must be approved by Asset and Liabilities Committee ("ALCO")/the Board. The trading book positions and limits are regularly reported to the BRMC.

Analysis of traded market risk exposures

During the year, the Group's traded market risk exposures on fixed income securities as measured by PV01, ranged from RM40,000 to RM73,000. The composition of the Group's trading portfolio is as set out in Note 5 to the financial statements.

(ii) **Equity risk**

Market risk on equities is the potential loss in the value of the investment in shares and interest-in-shares due to the changes in market price. This market risk is being monitored using Value-at-Risk ("VaR"). VaR refers to the maximum loss not exceeded with a given probability defined as the confidence level over a given period of time. There are also various levels of management action triggers in place to monitor against any upside and downside risks.

Risk measurement approach

The Group's risk management department monitors and manages market risk exposure via stress testing, in addition to reviewing and analysing its treasury trading strategy, positions and activities vis-à-vis changes in the financial market, monitoring limit usage, assessing limit adequacy, and verifying transaction prices.

Analysis of equity instruments risk exposures

	2012	2011
	RM'mil	RM'mil
Book value	120	31
Value-at-Risk	7	4

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

The tables below summarise the Group's exposure to interest rate risks. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates as follows:

Group

<-----Non-trading book----->

	Up to 1 month RM '000	> 1 - 3 months RM '000	> 3 - 12 months RM '000	1 - 5 years RM '000	Over 5 years RM '000	Non-interest sensitive RM '000	Trading book RM '000	Total RM '000	Effective interest rate
As at 31 January 2012									
Assets									
Cash and short-term funds	341,458	-	-	-	-	61,760	-	403,218	3.02%
Deposits with financial institutions	-	20,051	580	-	-	-	-	20,631	3.20%
Securities held-for-trading	-	-	-	-	-	-	360,985	360,985	-
Securities available-for-sale	3,053	5,006	71,006	97,277	199,664	14,189	283,168	673,363	4.11%
Securities held-to-maturity	75,000	125,000	-	-	-	-	-	200,000	3.19%
Derivative financial assets	-	-	-	-	-	-	6,688	6,688	-
Loan, advances and financing									
- Performing	218,878	133,643	159,925	-	46,500	*(8,704)	-	550,242	7.86%
Statutory deposits with									
Bank Negara Malaysia	-	-	-	-	-	27,165	-	27,165	-
Trade receivables	5,284	-	-	-	-	355,525	-	360,809	9.00%
Other assets [^]	-	-	-	-	-	100,911	-	100,911	-
Total assets	643,673	283,700	231,511	97,277	246,164	550,846	650,841	2,704,012	

[^] Other assets include other assets, property, plant and equipment and intangible assets as disclosed in the consolidated statement of financial position.

* The negative balance represents collective assessment allowance for loans, advances and financing.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

Group

<-----Non-trading book----->

	Up to 1 month RM '000	> 1 - 3 months RM '000	> 3 - 12 months RM '000	1 - 5 years RM '000	Over 5 years RM '000	Non-interest sensitive RM '000	Trading book RM '000	Total RM '000	Effective interest rate
As at 31 January 2012									
Liabilities and equity									
Liabilities									
Deposits from customers	876,817	208,878	24,370	-	-	-	-	1,110,065	3.24%
Deposits and placements of banks and other financial institutions	341,371	-	-	-	-	-	-	341,371	3.06%
Trade payables	-	-	-	-	-	482,878	-	482,878	-
Other liabilities #	-	-	-	-	-	81,975	-	81,975	-
Total liabilities	1,218,188	208,878	24,370	-	-	564,853	-	2,016,289	
Shareholder's equity	-	-	-	-	-	687,723	-	687,723	
Total equity and liabilities	1,218,188	208,878	24,370	-	-	1,252,576	-	2,704,012	
On-Balance Sheet interest sensitivity gap	(574,515)	74,822	207,141	97,277	246,164	(701,730)	650,841	-	
Off-Balance Sheet interest sensitivity gap	-	-	-	-	-	-	-	-	
Total interest sensitivity gap	(574,515)	74,822	207,141	97,277	246,164	(701,730)	650,841	-	

Other liabilities include other liabilities, deferred tax liabilities, amount owing to related companies, derivatives financial liabilities and provision for taxation as disclosed in the consolidated statement of financial position.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

The tables below summarise the Group's exposure to interest rate risks. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates as follows:

Group	Non-trading book						Effective interest rate
	Up to 1 month	> 1 - 3 months	> 3 - 12 months	1 - 5 years	Over 5 years	Non-interest sensitive	
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	
As at 31 January 2011							
Assets							
Cash and short-term funds	322,188	-	-	-	-	67,481	389,669
Deposits with financial institutions	-	20,849	640	-	-	-	21,489
Securities held-for-trading	-	-	-	-	-	-	353,818
Securities available-for-sale	4,703	154,505	38,469	194,067	83,992	(2,504) **	519,479
Securities held-to-maturity	20,000	50,000	-	-	-	-	70,000
Derivative financial assets	-	-	-	-	-	-	9,552
Loan, advances and financing							
- Performing	129,445	209,923	320,688	-	-	(10,176) *	649,880
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	8,834	8,834
Trade receivables	5,718	-	-	-	-	476,404	482,122
Other assets [^]	-	-	-	-	-	104,323	104,323
Total assets	482,054	435,277	359,797	194,067	83,992	644,362	2,609,166
Liabilities							
Other assets include other assets, property, plant and equipment and intangible assets as disclosed in the consolidated statement of financial position.							

[^] Other assets include other assets, property, plant and equipment and intangible assets as disclosed in the consolidated statement of financial position.

* The negative balance represents collective assessment allowance for loans, advances and financing.

** The negative balance is inclusive of net impairment loss on securities.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

Group

<-----Non-trading book----->

As at 31 January 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
Liabilities and equity									
Liabilities									
Deposits from customers	816,379	147,890	110,854	-	-	-	-	1,075,123	3.02%
Deposits and placements of banks and other financial institutions	85,000	106,008	10,000	-	-	-	-	201,008	2.98%
Trade payables	-	-	-	-	-	576,600	-	576,600	-
Other liabilities #	-	-	-	-	-	103,423	-	103,423	-
Total liabilities	901,379	253,898	120,854	-	-	680,023	-	1,956,154	
Shareholder's equity	-	-	-	-	-	653,012	-	653,012	-
Total equity and liabilities	901,379	253,898	120,854	-	-	1,333,035	-	2,609,166	
On-Balance Sheet interest sensitivity gap	(419,325)	181,379	238,943	194,067	83,992	(688,673)	409,617	-	
Off-Balance Sheet interest sensitivity gap	-	-	-	-	-	-	-	-	
Total interest sensitivity gap	(419,325)	181,379	238,943	194,067	83,992	(688,673)	409,617	-	

Other liabilities include other liabilities and amount owing to related companies as disclosed in the consolidated statement of financial position.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

Bank	Non-trading book						Effective interest rate	
	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
As at 31 January 2012								
Assets								
Cash and short-term funds	341,458	-	-	-	-	61,443	-	402,901
Deposits with financial institutions	-	20,051	580	-	-	-	-	20,631
Securities held-for-trading	-	-	-	-	-	-	360,985	360,985
Securities available-for-sale	3,053	5,006	71,006	97,277	199,664	14,189	283,168	673,363
Securities held-to-maturity	75,000	125,000	-	-	-	-	-	200,000
Derivative financial assets	-	-	-	-	-	-	6,688	6,688
Loan, advances and financing								
- Performing	218,878	133,643	159,925	-	46,500	(8,704) *	-	550,242
Statutory deposits with Bank								
Negara Malaysia	-	-	-	-	-	27,165	-	27,165
Trade receivables	5,284	-	-	-	-	355,525	-	360,809
Other assets ^	-	-	-	-	-	100,903	-	100,903
Total assets	643,673	283,700	231,511	97,277	246,164	550,521	650,841	2,703,687

^ Other assets include other assets, property, plant and equipment and intangible assets as disclosed in the statement of financial position.

* The negative balance represents collective assessment allowance for loans, advances and financing.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

Bank

Bank	<-----Non-trading book----->						Effective interest rate	
As at 31 January 2012	Up to 1 month RM '000	> 1 - 3 months RM '000	> 3 - 12 months RM '000	1 - 5 years RM '000	Over 5 years RM '000	Non-interest sensitive RM '000	Trading book RM '000	Total RM '000
Liabilities and equity								
Liabilities								
Deposits from customers	876,817	213,210	24,370	-	-	-	-	1,114,397
Deposits and placements of banks and other financial institutions	341,371	-	-	-	-	-	-	341,371
Trade payables	-	-	-	-	-	482,878	-	482,878
Other liabilities #	-	-	-	-	-	81,941	-	81,941
Total liabilities	1,218,188	213,210	24,370	-	-	564,819	-	2,020,587
Shareholder's equity	-	-	-	-	-	683,100	-	683,100
Total equity and liabilities	1,218,188	213,210	24,370	-	-	1,247,919	-	2,703,687

On-Balance Sheet interest
sensitivity gap

Off-Balance Sheet interest
sensitivity gap

Total interest sensitivity gap

(574,515)	70,490	207,141	97,277	246,164	(697,398)	650,841	-
(574,515)	70,490	207,141	97,277	246,164	(697,398)	650,841	-

Other liabilities include other liabilities, amount owing to related companies, provision for taxation, and deferred tax liabilities as disclosed in the financial position.

87

189

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

Bank	Non-trading book							Effective interest rate
	Up to 1 month	> 1 - 3 months	> 3 - 12 months	1 - 5 years	Over 5 years	Non-interest sensitive	Trading book	
As at 31 January 2011	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Assets								
Cash and short-term funds	322,188	-	-	-	-	67,312	-	389,500
Deposits with financial institutions	-	20,849	640	-	-	-	-	21,489
Securities held-for-trading	-	-	-	-	-	-	353,818	353,818
Securities available-for-sale	4,703	154,505	38,469	194,067	83,992	(2,504)	** 46,247	519,479
Securities held-to-maturity	20,000	50,000	-	-	-	-	-	70,000
Derivative financial assets	-	-	-	-	-	-	9,552	9,552
Loan, advances and financing								
- Performing	129,445	209,923	320,688	-	-	(10,176)	*	649,880
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	-
Trade receivables	5,718	-	-	-	-	476,404	-	482,122
Other assets ^	-	-	-	-	-	104,314	-	104,314
Total assets	482,054	435,277	359,797	194,067	83,992	644,184	409,617	2,608,988

^ Other assets include other assets, property, plant and equipment, intangible assets and deferred tax assets as disclosed in the statement of financial position.

* The negative balance represents collective assessment allowance for loans, advances and financing.

** The negative balance represents net impairment loss on securities.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Market risk (cont'd.)

(iii) Non-traded market risk (cont'd.)

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

Bank

<-----Non-trading book----->

As at 31 January 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
Liabilities and equity									
Liabilities									
Deposits from customers	820,621	147,890	110,854	-	-	-	-	1,079,365	3.02%
Deposits and placements of banks and other financial institutions	85,000	106,008	10,000	-	-	-	-	201,008	2.98%
Trade payables	-	-	-	-	-	576,600	-	576,600	-
Other liabilities #	-	-	-	-	-	103,394	-	103,394	-
Total liabilities	905,621	253,898	120,854	-	-	679,994	-	1,960,367	
Shareholder's equity	-	-	-	-	-	648,621	-	648,621	-
Total equity and liabilities	905,621	253,898	120,854	-	-	1,328,615	-	2,608,988	
On-Balance Sheet interest sensitivity gap	(423,567)	181,379	238,943	194,067	83,992	(684,431)	409,617	-	
Off-Balance Sheet interest sensitivity gap	-	-	-	-	-	-	-	-	
Total interest sensitivity gap	(423,567)	181,379	238,943	194,067	83,992	(684,431)	409,617	-	

Other liabilities include other liabilities and amount owing to related companies as disclosed in the statement of financial position.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)**Market risk (cont'd.)****(iii) Non-traded market risk (cont'd.)**

The Group's core non-traded market risks are interest rate risk in the banking book and foreign exchange risk.

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

Interest rate risk ("IRR") emanates from the repricing mismatches of the Group's banking assets and liabilities and also from the Group's investments of their surplus funds.

Risk measurement approach

Balance sheet management under the purview of ALCO includes risk management of the potential change in earnings and capital arising from the effect of movements in interest rates on the structured banking book of the Bank/Group. To achieve this, ALCO uses various tools including interest rate gap analysis. Simulating a parallel yield curve shift, this measurement is sometimes known as Earnings-at-Risk ("EAR") and specific tolerance limit has been set to monitor this market risk exposure.

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate risk. In reality, treasury operations seek to proactively change the interest rate risk profile to minimise losses and maximise net revenues. The projection assumes that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on the net interest income ("NII") and economic value of equity ("EVE") of some rates changing while others remain unchanged. The projection also assumes a constant balance sheet position and that all positions run to maturity.

 INFORMATION ON THE ECMLIB GROUP (*Cont'd*)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)**Market risk (cont'd.)****(iii) Non-traded market risk (cont'd.)****(b) Foreign Exchange Risk**

Foreign currency exchange risk which arises from exchange rate movements may affect the Group's exposure to receivables and payables denominated in foreign currency. Hedging of foreign currency exchange risk through the use of forward exchange contracts may be adopted should the foreign exchange rate be expected to fluctuate widely. There is no outstanding forward exchange contract as at the end of the financial year.

Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to maintain sufficient liquid assets to meet their financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk governance

The BRMC supported by the ALCO is the primary party responsible for liquidity management based on guidelines. Liquidity policies and frameworks are reviewed by the GRMD and approved by the BRMC prior to implementation.

Risk management approach

Liquidity risk management is aligned with the New Liquidity Framework issued by BNM, and is measured and managed on a projected cash flow basis. In addition to ensuring the compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they matured or are borrowed by customers. The Group holds a sizeable balance of Malaysian Government Securities amounting to RM315 million (2011: RM71 million) of its portfolio of securities.

The Group's liquidity and funding position are supported by the Group's significant customer deposit base, accompanied by funding from wholesale markets. The Group's retail deposit base comprises short term and fixed deposits. The Group's reputation, earnings generation capacity, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X**ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)****40. Financial risk management objectives and policies (cont'd.)****Liquidity and funding risk (cont'd.)****Risk management approach (cont'd.)**

The Group accesses the wholesale markets through the issuance of certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

The primary tools for monitoring liquidity is the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the BRMC on a quarterly basis and in Ringgit Malaysia.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed to determine the cash flow mismatches under the "Bank Specific Liquidity Crisis" and "General Market Liquidity Crisis" scenarios and the possible source of funding to meet the shortfalls during a liquidity crisis.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Liquidity and funding risk (cont'd.)

Risk management approach (cont'd.)

(a) Maturity analysis of financial liabilities and off-balance sheet commitments on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities and off-balance sheet commitments by remaining contractual maturities. The financial liabilities in the tables below will not agree to the balances reported in the statements 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.

Group 2012	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
Deposits from customers	363,664	484,830	209,127	4,665	20,326	-	1,082,612
Deposits from banks	105,023	266,820	-	-	-	-	371,843
Total liabilities	468,687	751,650	209,127	4,665	20,326	-	1,454,455
Loan commitments	481,286	161	12,115	80	56,099	3,500	553,241
Total off-balance sheet items	481,286	161	12,115	80	56,099	3,500	553,241
Total liabilities and off-balance sheet items	949,973	751,811	221,242	4,745	76,425	3,500	2,007,696

682-X

INFORMATION ON THE ECMLIB GROUP (Cont'd)

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Liquidity and Funding Risk (cont'd.)

Risk Management Approach (cont'd.)

(a) Maturity analysis of financial liabilities and off-balance sheet commitments on an undiscounted basis (cont'd.)

Group 2011	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
Deposits from customers	350,580	535,109	223,740	182,841	124,001	-	1,416,271
Deposits from banks	15,362	82,236	146,743	-	37,978	-	282,319
Total liabilities	365,942	617,345	370,483	182,841	161,979	-	1,698,590
Guarantees							
Loan commitments	269,373	20,000	9,050	18,770	-	-	317,193
Total off-balance sheet items	269,373	20,000	9,050	18,770	-	-	317,193
Total liabilities and off-balance sheet items	635,315	637,345	379,533	201,611	161,979	-	2,015,783

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)

Liquidity and funding risk (cont'd.)

Risk management approach (cont'd.)

(a) Maturity analysis of financial liabilities and off-balance sheet commitments on an undiscounted basis (cont'd.)

Bank 2012	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
Deposits from customers	363,664	489,166	209,127	4,665	20,326	-	1,086,948
Deposits from banks	105,023	266,820	-	-	-	-	371,843
Total liabilities	468,687	755,986	209,127	4,665	20,326	-	1,458,791
Loan commitments	481,286	161	12,115	80	56,099	3,500	553,241
Total off-balance sheet items	481,286	161	12,115	80	56,099	3,500	553,241
Total liabilities and off-balance sheet items	949,973	756,147	221,242	4,745	76,425	3,500	2,012,032
2011							
Deposits from customers	350,580	535,109	223,740	182,841	124,001	-	1,416,271
Deposits from banks	15,362	82,236	146,743	-	37,978	-	282,319
Total liabilities	365,942	617,345	370,483	182,841	161,979	-	1,698,590
Loan commitments	269,373	20,000	9,050	18,770	-	-	317,193
Total off-balance sheet items	269,373	20,000	9,050	18,770	-	-	317,193
Total liabilities and off-balance sheet items	635,315	637,345	379,533	201,611	161,979	-	2,015,783

95

197

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

40. Financial risk management objectives and policies (cont'd.)**Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed by the Group in accordance with the Group's operational risk management framework with established operational risk management processes. To manage and control operational risk, the Group places great emphasis on the importance of proper monitoring and reporting of business units' adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and the Board of Directors, and independent assessment of the adequacy and reliability of the risk management processes by the BRMC.

The Group's operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations and self-assessment audit.

41. Fair value of financial assets and liabilities**Determination of fair value and the fair value hierarchy**

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 measure 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 and Reuters.

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

41. Fair value of financial assets and liabilities (cont'd.)**Determination of fair value and the fair value hierarchy (cont'd.)**

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. Valuation techniques used incorporate assumptions regarding discount rates, interest rate yield curves, estimates of future cash flows and other factors. Changes in these assumptions could materially affect the fair values derived. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs for the determination of fair value due to the low complexity of the financial instruments held.

The following table shows the Group's and the Bank's financial assets and liabilities which are measured at fair value analysed by level within the fair value hierarchy:

Group 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
- Government securities and treasury bills	-	153,933	-	153,933
- Money market instruments	-	194,977	-	194,977
- Non-money market instruments	2,001	10,074	-	12,075
	<u>2,001</u>	<u>358,984</u>	<u>-</u>	<u>360,985</u>
Financial investments available-for-sale				
- Government securities and treasury bills	-	383,419	-	383,419
- Non-money market instruments	145,728	142,016	-	287,744
	<u>145,728</u>	<u>525,435</u>	<u>-</u>	<u>671,163</u>
Total financial assets measured at fair value	<u>147,729</u>	<u>884,419</u>	<u>-</u>	<u>1,032,148</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

41. Fair value of financial assets and liabilities (cont'd.)**Determination of fair value and the fair value hierarchy (cont'd.)**

Group 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
- Government securities and treasury bills	-	49,758	-	49,758
- Money market instruments	-	304,060	-	304,060
	<u>-</u>	<u>353,818</u>	<u>-</u>	<u>353,818</u>
Financial investments available-for-sale				
- Government securities and treasury bills	-	280,485	-	280,485
- Non-money market instruments	46,247	190,547	-	236,794
	<u>46,247</u>	<u>471,032</u>	<u>-</u>	<u>517,279</u>
Total financial assets measured at fair value	<u>46,247</u>	<u>824,850</u>	<u>-</u>	<u>871,097</u>

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

41. Fair value of financial assets and liabilities (cont'd.)**Determination of fair value and the fair value hierarchy (cont'd.)**

	Group and Bank			
	2012		2011	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Financial investments available-for-sale	2,200	2,200*	2,200	2,200*
Financial investments held-to-maturity				
- Money market instruments	<u>200,000</u>	<u>200,000</u>	<u>70,000</u>	<u>70,000</u>

* It is not practical to estimate the fair value of the unquoted shares due to absence of an active market. However, the Directors do not anticipate the carrying amount recorded at the reporting date to be significantly different from the value that would eventually be received.

The methods and assumptions used to estimate the fair values of these financial instruments not carried at fair value are as follows:

INFORMATION ON THE ECMLIB GROUP (Cont'd)

682-X

ECM Libra Investment Bank Berhad
(Incorporated in Malaysia)

41 Fair value of financial assets and liabilities (cont'd.)

The carrying amounts of financial assets and liabilities of the Group and of the Bank at the balance sheet date approximated their fair values.

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial liabilities				
Amounts owing to related companies				
- 2012	234	*	234	*
- 2011	234	*	234	*

* It is not practical to estimate the fair value of the unquoted shares due to absence of an active market. However, the Directors do not anticipate the carrying amount recorded at the reporting date to be significantly different from the value that would eventually be received.

(i) Securities held-for-trading, securities available-for-sale and securities held-to-maturity

The estimated fair values are generally based on quoted and observable market prices. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models, discounted cash flow techniques or net tangible asset backing of the investee where applicable. Where the discounted cash flow technique is used, the expected future cash flows are discounted using market interest rates for similar instruments.

Fair value of embedded derivatives are derived using the binomial lattice approach.

(ii) Cash and cash equivalents, trade, loan and other receivables, trade and other payables, deposits from customers and deposits and placements of banks and other financial institutions

The carrying amounts approximate fair value because of the short maturity of these instruments.