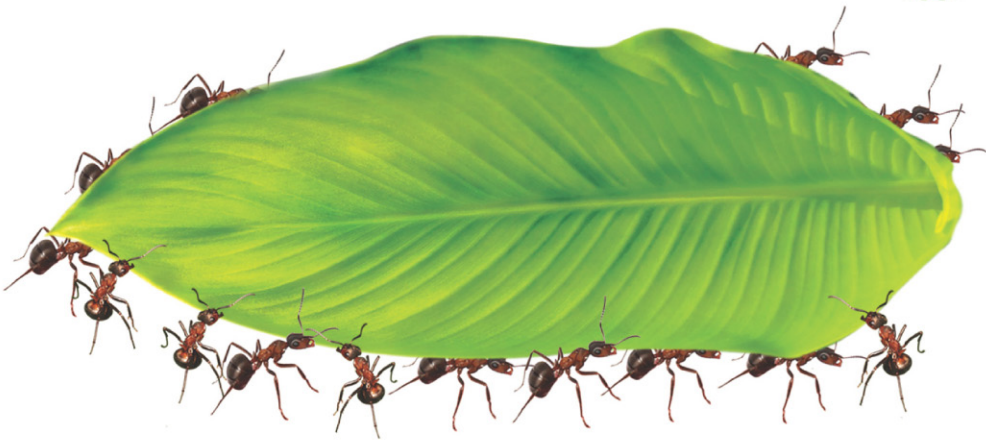


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**KENANGA**

K & N KENANGA HOLDINGS BERHAD

Company No. 302859-X

Annual Report 2007

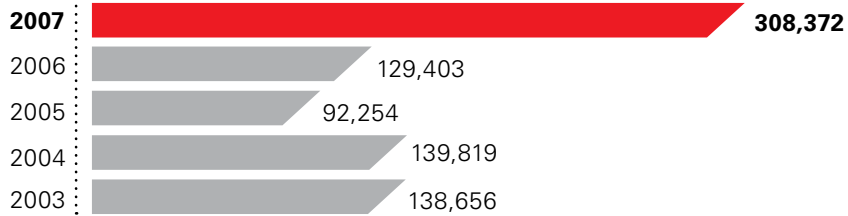
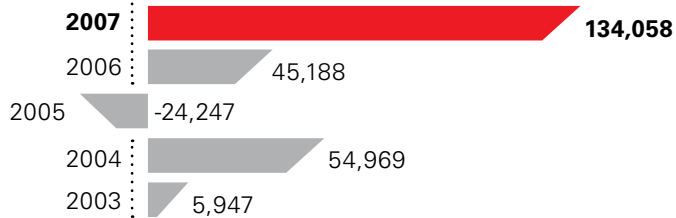
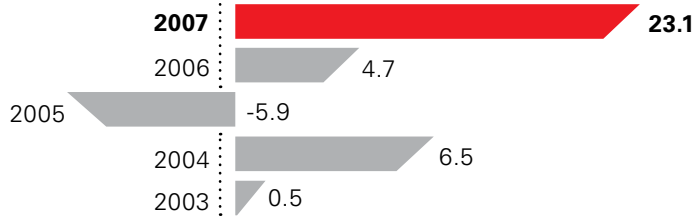


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# 5 Year Group Financial Summary

	2007	2006	2005	2004	2003
	RM ' 000	RM ' 000	RM ' 000	RM ' 000	RM ' 000
<b>RESULTS</b>					
Operating Revenue	<b>308,372</b>	129,403	92,254	139,819	138,656
Profit/(Loss) Before Taxation	<b>134,058</b>	45,188	(24,247)	54,969	5,947
Profit/(loss) After Taxation and minority interests	<b>143,784</b>	30,235	(36,009)	39,536	3,324
<b>ASSETS</b>					
Total Assets	<b>2,801,582</b>	1,609,811	1,229,711	1,386,468	1,324,854
Net Assets	<b>867,553</b>	746,365	715,558	767,463	736,217
<b>SHAREHOLDERS' FUNDS</b>					
Paid-up share capital	<b>611,759</b>	611,759	611,759	611,759	610,817
Shareholders' funds	<b>863,834</b>	742,076	712,820	765,248	734,107
<b>FINANCIAL RATIOS</b>					
Net return on average shareholders' funds (%)	<b>17.91</b>	4.16	(4.87)	5.27	0.45
Net return on average assets (%)	<b>6.52</b>	2.13	(2.75)	2.92	0.29
<b>SHARE INFORMATION</b>					
Basic earnings per share	<b>23.1 sen</b>	4.7 sen	(5.9) sen	6.5 sen	0.5 sen
Net assets backing per share	<b>RM1.42</b>	RM1.22	RM1.17	RM1.25	RM1.21
Dividend rate	<b>5%</b>	2%	1.5%	3%	2%
Dividend cover (times)	<b>6.35 x</b>	3.39 x	(5.45)x	4.49x	0.25x
Net dividend per share	<b>3.70 sen</b>	1.46 sen	1.08 sen	2.16 sen	1.44 sen

**Operating Revenue (RM '000)****Profit Before Taxation (RM '000)****Basic Earnings per Share (Sen)****Shareholders' Fund (RM '000)****Net Assets (RM '000)**

# Corporate Information

## Board of Directors

YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail  
*(Executive Chairman)*

Abdul Aziz Bin Hashim  
*(Non-Executive Director/Deputy Chairman)*

Y Bhg Dato' Ramli Ismail  
*(Managing Director)*

Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain  
*(Independent Non-Executive Director)*

YM Raja Dato' Seri Abdul Aziz Bin Raja Salim  
*(Independent Non-Executive Director)*

Charles McLaughlin  
*(Non-Executive Director)*

Dato' Richard Alexander John Curtis  
*(Non-Executive Director)*

Kevin How Kow  
*(Independent Non-Executive Director)*

Luigi Fortunato Ghirardello  
*(Non-Executive Director)*

Haji Salleh Bin Abdullah  
*(Non-Executive Director)*

## Audit Committee

YM Raja Dato' Seri Abdul Aziz Bin Raja Salim  
*(Independent Non-Executive Director)*  
*(Chairman)*

Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain  
*(Independent Non-Executive Director)*

Kevin How Kow  
*(Independent Non-Executive Director)*

## Remuneration Committee

YM Raja Dato' Seri Abdul Aziz Bin Raja Salim  
*(Independent Non-Executive Director)*  
*(Chairman)*

Y Bhg Dato' Ramli Ismail  
*(Managing Director)*

Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain  
*(Independent Non-Executive Director)*

## Company Secretary

Yap Pik Yoon  
(MAICSA 0739805)

## Registered Office

8th Floor, Kenanga International  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Tel : 03-2162 1490  
Fax : 03-2161 4990  
UBL : www.kenanga.com.my  
E-mail : kenanga@kenanga.com.my

## Company No.

302859-X

## Share Registrar

Symphony Share Registrars Sdn Bhd  
Level 26, Menara Multi Purpose  
Capital Square  
No. 8 Jalan Munshi Abdullah  
50100 Kuala Lumpur  
Tel : 03-2721 2222  
Fax : 03-2721 2530/2531  
E-mail : ssrs@symphony.com.my

## Auditors

Ernst & Young  
(AF 0039)  
(Chartered Accountants)

## Principal Bankers

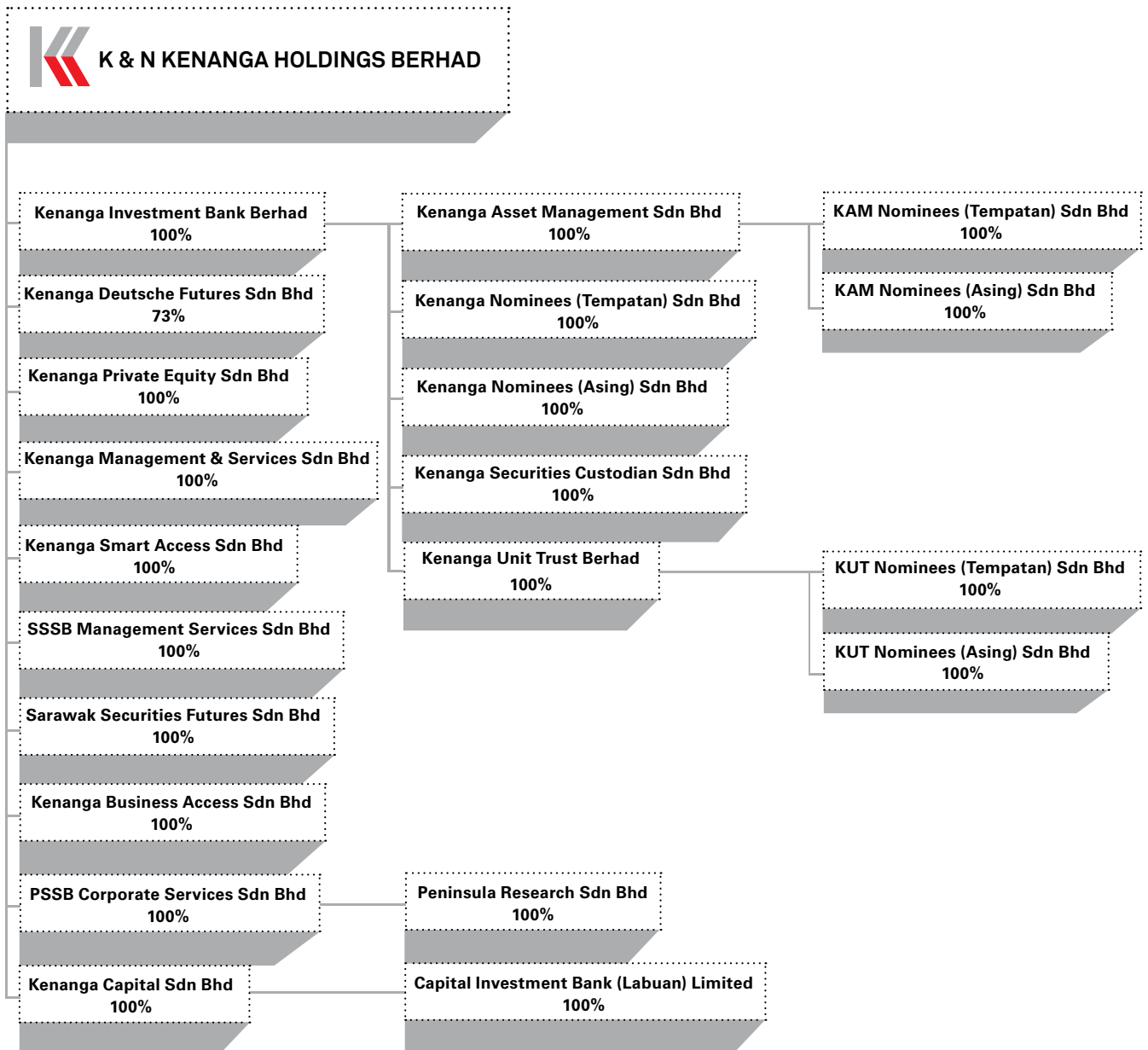
Standard Chartered Bank (Malaysia) Berhad  
HSBC Bank Malaysia Berhad  
United Overseas Bank (Malaysia) Bhd  
CIMB Bank Berhad  
EON Bank Berhad

## Stock Exchange Listing

Bursa Malaysia Securities Berhad  
Main Board

# Corporate Structure

## K & N Kenanga Holdings Berhad Group of Companies Corporate Structure as at 21 March 2008



## Directors' Profile

### YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail

Malaysian, age 80  
Executive Chairman  
Chairman of Tender Committee

YM Tengku Dato' Paduka Noor was appointed to the Board of K & N Kenanga Holdings Berhad ("Kenanga Holdings") on 22 July 1996.

She was the co-founder of Kenanga Investment Bank Berhad in 1973 and has been the major shareholder since the Bank was incorporated and subsequently Kenanga Holdings. Prior to this, she was a partner in a stockbroking firm, Hallam & Co.

She was the first lady member of Bursa Malaysia Securities Berhad in 1964 and has over 40 years experience in the securities industry. She was one of the founders of the Association of Stockbroking Companies Malaysia and appointed as President of the Association, a post she held until 1994 when she became its chairperson. She retired as Chairperson in 1997 and was made a Life Advisor to the Association.

Her directorships in public companies include Kenanga Investment Bank Berhad and Kenanga Unit Trust Berhad.

She has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. She has never been convicted for any offence within the past 10 years.

### Abdul Aziz Bin Hashim

Malaysian, age 72  
Deputy Chairman, Non-Executive Director

Abdul Aziz was appointed to the Board of Kenanga Holdings on 22 July 1996.

He is a Barrister-at-law from the Middle Temple, United Kingdom.

He joined Kenanga Investment Bank Berhad as shareholder and Executive Director in 1979. He retired from his executive position in 2004 and was redesignated as Non-Executive Deputy Chairman of the Group. Prior to joining Kenanga Holdings, he worked as Company Secretary in Majlis Amanah Rakyat from 1960 to 1972. From 1972 to 1975, he was a partner in Hj. Ariffin & Co. and subsequently became a Dealer in Charles Bradburne (1930) & Co Sdn Bhd from 1975 to 1976. He assumed the position of General Manager and Dealer in the stockbroking firm, Razak & Ramli from 1976 to 1979. He had served as a Member of Bursa Malaysia Securities Berhad Committee for a year in 1984.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

## Y Bhg Dato' Ramli Ismail

Malaysian, age 65  
 Managing Director  
 Member of Remuneration Committee

Y Bhg Dato' Ramli was appointed to the Board of Kenanga Holdings on 22 July 1996.

He is a Member of the Australian Society of Certified Practising Accountants.

He joined Kenanga Investment Bank Berhad as shareholder and Executive Director in 1980. In 1973, he was admitted as a Member of Bursa Malaysia Securities Berhad. In the same year, he established the stockbroking firm, Razak & Ramli and was there until 1980. He served as a Member of the Bursa Malaysia Securities Berhad Committee from 1985 to 1991 and was Deputy Chairman of the Committee for two terms from 1986 to 1987 and 1989 to 1991.

His directorships in public companies include Kenanga Investment Bank Berhad and Kenanga Unit Trust Berhad.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

## Y Bhg Dato' Richard Alexander John Curtis

British, age 56  
 Non-Executive Director

Y Bhg Dato' Richard Curtis was appointed to the Board as Non-Executive Director of Kenanga Holdings on 29 September 2006.

He holds a Bachelor of Law (LL.B) from University of Bristol, United Kingdom and is admitted as a solicitor in England, Wales and Hongkong. He also is a Sloan Fellow of London Business School, United Kingdom.

He is currently the Group Managing Director of Cahya Mata Sarawak Berhad, a conglomerate listed on the Main Board of Bursa Malaysia Securities Berhad with cement, construction materials, infrastructure and property development as its main businesses. He was appointed as the Group Managing Director in September 2006.

Dato' Richard Curtis' other directorships in public companies include Kenanga Investment Bank Berhad, Cahya Mata Sarawak Berhad, UBG Berhad (formerly known as Utama Banking Group Berhad), CMS Trust Management Berhad and several private limited companies. He is also a Trustee of Yayasan Raja Muda Selangor.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offence within the past 10 years.

## Directors' Profile (continued)

### **Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain**

Malaysian, age 64

Independent Non-Executive Director

Member of Audit Committee

Member of Remuneration Committee

Y Bhg Tan Sri Dato' Ibrahim was appointed to the Board of Kenanga Holdings as Independent Non-Executive Director on 26 July 1996.

Tan Sri Dato' Ibrahim is a graduate from British Institute of Management and Institute of Marketing in United Kingdom and holds a Masters in Business Administration from the University of Ohio, in the United States of America.

Upon his graduation in 1965, he was attached to UiTM (University Technology Mara, formerly known as Institute of Technology MARA) as a lecturer where he was later appointed as a Council member/Director, a position which he held till October 2006.

He was the Chairman of the International Executive Service Corps Steering Committee Malaysia and Chapter Chairman of Young Presidents' Organisation, a founding Board member of the Penang Regional Development Authority ("PERDA") and had served as a Board Member of the Tourist Development Corporation of Malaysia.

He was also the Chief Executive of Amanah International Finance Berhad, Amanah Chase Merchant Bank Berhad and Oriental Bank Berhad, Chairman and Chief Executive Officer of Setron (Malaysia) Berhad, Chairman of Bank Kerjasama Rakyat (M) Berhad, Bescorp Industries Berhad, Pan Malaysian Industries Bhd and Chemical Company of Malaysia Berhad.

Currently, he is the Chairman of Pan Holdings Berhad, Pan Malaysian Capital Berhad and Kawan Food Berhad and serves as Deputy Chairman of Metrojaya Bhd. His directorships in other public companies include Pan Malaysian Industries Berhad and AMMB Holdings Berhad.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

### **YM Raja Dato' Seri Abdul Aziz Bin Raja Salim**

Malaysian, age 69

Independent Non-Executive Director

Chairman of Audit Committee

Chairman of Remuneration Committee

YM Raja Dato' Seri Abdul Aziz was appointed to the Board of Kenanga Holdings as Independent Non-Executive Director on 26 July 1996.

He is an Honorary Fellow of the Malaysian Institute of Taxation, Fellow of the Chartered Association of Certified Accountants, United Kingdom, Fellow of the Chartered Institute of Management Accountants ("CIMA"), United Kingdom and a Chartered Accountant (Malaysia).

He served as Director General of Inland Revenue Malaysia from 1980 to 1990 and Accountant General Malaysia from 1990 to 1994. After his retirement from the Government service, he was appointed as Chairman of BSN Commercial Bank (M) Berhad from 1995 to 1999. He was a Board Member of several Government agencies and organisations as well as Deputy Chairman of the Employees Provident Fund and Deputy Chairman of the Universiti Pertanian Malaysia Council. Raja Dato' Seri Abdul Aziz was the President of CIMA, Malaysia from 1976 to 1993 and a council member of CIMA, United Kingdom from 1990 to 1996. He was awarded the CIMA Gold Medal in recognition of his outstanding service to the Accounting Profession. He was a council member of the Malaysian Institute of Accountants ("MIA") until September 2005 and still sits on several MIA committees. At present, he is also the Chairman of Amanah Saham MARA Berhad.

Raja Dato' Seri Abdul Aziz's other directorships in public companies include Jerneh Asia Bhd, Jerneh Insurance Bhd, Camerlin Group Bhd, Tasek Corporation Berhad, PBB Group Berhad, Gamuda Berhad, Panasonic Manufacturing Malaysia Berhad, Southern Steel Berhad, Kenanga Investment Bank Berhad and Kenanga Unit Trust Berhad.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

## Luigi Fortunato Ghirardello

Australian, age 44  
Non-Executive Director

Luigi Ghirardello was appointed to the Board of Kenanga Holdings as Non-Executive Director on 15 February 2006.

He holds a Bachelor of Arts and a Bachelor of Laws from the University of Sydney, Australia. He is also a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia, Australia.

He is currently the Managing Director, Head of Global Finance – Asia Pacific for Deutsche Bank AG – Singapore Branch, a position he held since May 2004. His role encompasses the management of Short Term Interest Rate Trading (STIRT) in Asia, an integrated short-term trading unit combining foreign exchange and money market products. In addition, he is also responsible for interest rate trading in money markets/REPO and cash products and liquidity management in Japan and Australia. He also has regional responsibility for the Global Exchange Services platform in Asia Pacific.

Prior to taking up his current position in May 2004, he was Global Head of Money Markets Trading and Securities based in London as well as Deputy Chairman of the Global Markets Risk Committee. Before joining Deutsche Bank in 1995, he was an Associate Director and Trading Manager at Schroders Australia Ltd and held various senior positions at National Australia Bank.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

## Charles McLaughlin

British, age 47  
Non-Executive Director

Charles McLaughlin was appointed to the Board of Kenanga Holdings as Non-Executive Director on 7 February 2006.

He holds a BA (Hons) Business Studies (Glasgow Caledonian) and a MBA (Dist) (London Guildhall).

Charles is Managing Director/ Chief Operating Officer (“COO”) for Global Markets Equities Asia for Deutsche Bank AG, based in Hong Kong. Charles joined Deutsche Bank (“DB”) in 2005, and represents DB on numerous corporate boards across Asia. Prior to joining Deutsche Bank, Charles spent 12 years with JP Morgan with assignments in London, New York, Tokyo and Hong Kong. After serving in several Operations and Technology roles, Charles became Asia Pacific Head of Operations for Equities and Futures & Options, based in Tokyo from 1996-2002. In 2002, Charles moved to Hong Kong and became joint Head and COO for Equity Derivatives in Asia Pacific before becoming COO for Equities Asia Pacific in 2004.

Mr McLaughlin’s other directorship in public companies is Kenanga Investment Bank Berhad.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

## Directors' Profile (continued)

### Kevin How Kow

Malaysian, age 59  
Independent Non-Executive Director  
Member of Audit Committee

Kevin How was appointed to the Board of Kenanga Holdings as Independent Non-Executive Director on 4 February 2005.

He is a Fellow of The Institute of Chartered Accountants in England & Wales and a member of the Malaysian Institute of Accounts, the Malaysian Institute of Certified Public Accountants and the Institute of Certified Public Accountants of Singapore.

He was made a partner of Ernst & Young, Malaysia in 1984. He had served as the partner-in-charge of its offices in Sabah and Sarawak and later from 1996 onwards as the partner-in-charge of its practice in Sabah and Labuan until his retirement on 31 December 2003.

Kevin's other directorships in public companies include Kenanga Investment Bank Berhad, Cahya Mata Sarawak Berhad, UBG Berhad (formerly known as Utama Banking Group Berhad), Sabah Development Bank Berhad, Saham Sabah Berhad and CMS I-Systems Berhad.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

### Haji Salleh Bin Abdullah

Malaysian, age 58  
Non-Executive Director

Haji Salleh was appointed to the Board of Kenanga Holdings as Non-Executive Director on 7 November 2001.

He was attached to the Bank Supervision and Internal Audit Department of Bank Negara Malaysia from 1971 to 1985. He then joined Delta Finance Berhad (now merged, known as RHB Bank Berhad) and was appointed Executive Director in 1995, a position he held until December 2000.

He has no conflict of interest with the Company and has no family relationship with any other director and/or major shareholder of the Company. He has never been convicted for any offences within the past 10 years.

# Bursa Malaysia Outlook

## The Malaysian Economy—An eventful year

### Overview of 2007

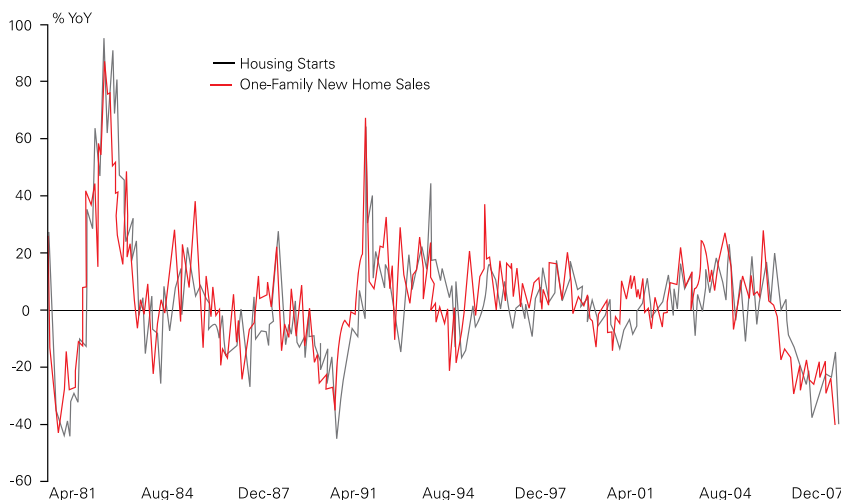
The past year has been a roller coaster ride for the global financial markets. Malaysia's economy and financial markets was not spared from the spillover effect of the US housing meltdown. However, the gloomy expectations took a pause as it entered 2H07 on improving domestic demand, resilient regional growth led by China and India, strong global demand for crude petroleum and palm oil, as well as the robust services and relatively strong recovery in the construction sector that has helped to sustain domestic economic expansion so far.

Following a surprise three-year-high GDP growth of 7.3% in the 4Q07, it lifted the average growth in the 2H07 to 7.0% outpacing the 5.6% registered in the 1H07. As a result, GDP growth for the whole of 2007 expanded by 6.3% exceeding the official and our own estimate of 6.0% growth and outpaces the 5.9% in 2006. This goes to show that Malaysia's economy has so far remained relatively resilient despite the deteriorating global financial markets and weak US consumer demand.

A decade after the Asian Financial Crisis and half a century after independence, Malaysia's level of confidence at least economically, as a developing nation has improved tremendously. While the Government is aware of the threat from the spillover of the US property slump into the broader global economy as well as the impact of higher commodity prices, it remained confident that the domestic economy would be able to withstand external shocks and continue to progress towards its potential growth in the years to come.

As we enter into the "Age of Turbulence," as the title of the book by former Federal Reserve Chairman Allen Greenspan suggests, we believe things will get worse before getting any better. Judging from the previous housing-led economic slowdown in the US, we believe the current impact would deepen and prolong. Based on the unabated decline in US housing data and rising jobless rates, the worst may not be over yet. Even if it is nearing the worst, the adverse sentiment especially in consumer and investor confidence, would linger on for months or even years. The slower consumer and business spending would impact export-dependent nations. This explains the slower-than-expected recovery in export demand for electronics and electrical (E&E) products which account for almost half of Malaysia's exports which may weigh on the economic growth prospects going forward.

### US housing sector meltdown



Though the Government is aware that the challenges faced by the economy would continue in 2008 and beyond, it made a drastic proposition to its latest budget plan. Instead of proposing another expansionary budget, it has embarked on conserving on spending to focus on measures to re-enforce previous policies aimed at sharpening the nation's competitive edge and further strengthening human capital development. The proposed gross development expenditure for 2008 is reduced by 2.1% to RM40b from an estimated RM40.9b in 2007, a lower estimate compared with the RM44.5b proposed earlier for the 2007 Budget.

Source: US Census Bureau, Kenanga Research

# Bursa Malaysia Outlook (continued)

**Table 1 : Real GDP Growth By Aggregate Demand**

%YoY					KIB	BNM
	2004	2005	2006	2007	2008F	2008F
Consumption	9.4	8.2	6.6	10.6	7.7	6.4
Public	7.6	6.4	5.0	6.4	6.6	6.0
Private	9.8	8.7	7.1	11.7	8.0	6.5
Investment	3.6	5.0	7.9	10.2	3.9	3.5
Public	-21.5	6.8	8.9	8.0	1.5	0.5
Private	46.5	3.3	7.0	12.3	6.1	6.3
Aggregate Dd (-stocks)	7.7	7.3	7.0	10.5	7.7	5.6
Exports	16.1	7.9	7.4	3.7	4.2	0.9
Imports	19.6	8.9	8.6	4.1	6.3	2.3
<b>GDP</b>	<b>6.8</b>	<b>5.0</b>	<b>5.9</b>	<b>6.3</b>	<b>6.1</b>	<b>5.0-6.0</b>

Source: Bank Negara Malaysia (BNM), Kenanga Investment Bank (KIB), Ministry of Finance (MoF), F: forecast

Nonetheless, combined with the proposed RM128.8b for operating expenditure, the total Budget allocation would be RM168.8b or an increase of 2.5% from 2007.

The higher operating expenditure is largely to accommodate the higher salary payout to civil servants.

The marked increase in the allocation of the development expenditure is in social services. Its share of total allocation rose to 33.8% (RM13.5b) in 2008 from 31.9% (RM13.1b) in 2007 with emphasis on education and health. Meanwhile, in view of its consolidation mode, spending on economic services is projected to be reduced to RM17.9b or 44.8% of total allocation from RM19.1b or 46.8% share.

**Table 2 : Federal Government Finance**

	2004	2005	2006	MoF Forecast	
				2007	2008
<b>Revenue</b>	<b>99.4</b>	<b>106.3</b>	<b>123.5</b>	141.8	147.1
<b>Operating Expenditure</b>	<b>91.3</b>	<b>97.7</b>	<b>107.7</b>	123.9	128.8
Current Surplus/deficit	8.1	8.6	15.8	17.9	18.3
<b>Gross Dev. Expenditure</b>	<b>28.9</b>	<b>30.5</b>	<b>35.8</b>	<b>40.1</b>	<b>40.0</b>
Direct Expenditure	27.7	29.0	33.5	37.6	37.1
Gross Lending	1.2	1.5	2.3	3.3	2.9
Minus Loan Recoveries	1.3	3.3	0.9	3.0	0.8
<b>Net Dev. Expenditure</b>	<b>27.5</b>	<b>27.3</b>	<b>34.9</b>	<b>37.1</b>	<b>39.2</b>
<b>Overall Surplus/deficit</b>	<b>-19.4</b>	<b>-18.7</b>	<b>-19.1</b>	<b>-19.2</b>	<b>-20.9</b>
% of GDP	-4.1	-3.6	-3.3	-3.2	-3.1

Source: Ministry of Finance (MoF), F: Forecast

Meanwhile, the Federal Government revenue is expected to increase by 3.7% to RM147.1b in 2008, albeit smaller than 14.8% this year. This is largely due to the further reduction in corporate tax by another 1.0% to 26% along with the slower growth outlook this year. Nonetheless, we expect the petroleum-related income to sustain growth in the overall government revenue. As average crude petroleum price is expected to remain above US\$80/barrel, petroleum-related revenue is estimated to exceed 40.0% of total fiscal revenue for both 2007 and 2008 from about 37.3% in 2006 and 29.1% in 2005. Moreover,

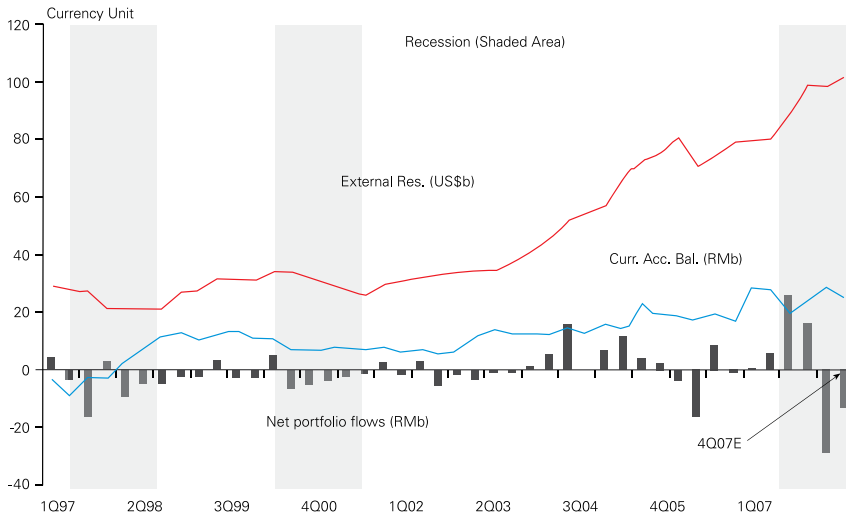
revenue collections are expected to remain strong, underpinned by steady economic growth, high corporate earnings and bigger investment income contributions from Petronas and the Government Linked Companies.

With the slower revenue growth target, the overall Federal Government deficit is projected to inch up to RM20.9b in 2008 from RM19.3b this year. However, as a ratio to GDP, the Government expects its budget deficit to be reduced marginally to 3.1% in 2008 from 3.2% this year. This is by far, the lowest since 1998 (1.8% of GDP), at the onset of the Government's expansionary policy a decade ago. While the reduced deficit ratio reflects fiscal prudence, it provides room for future budgetary expansion, particularly if the domestic economy continues to be affected by sluggish external demand.

However, given that there is a downside to the overall economy going into the later part of 2007 as the US housing slump already showed signs of spilling into the broader economy, we may see a shortfall in the already slow revenue growth.

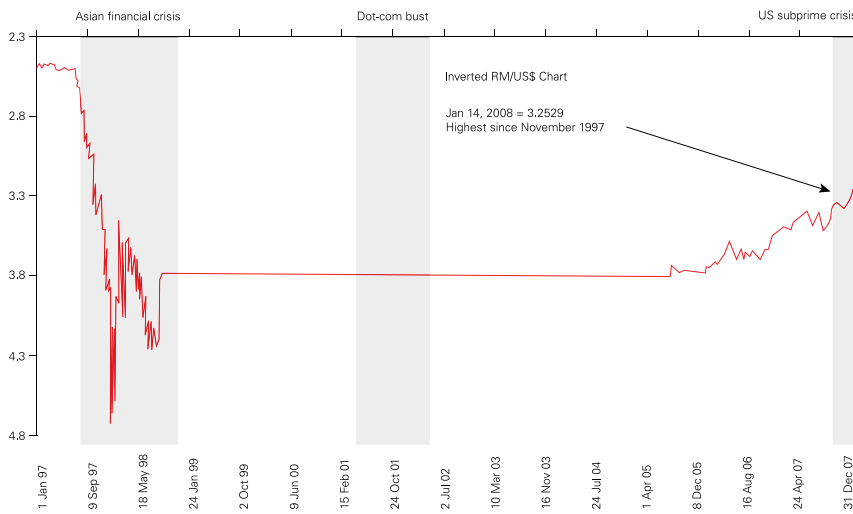
Along with the enlarged operating expenditure, our budget deficit forecast is slightly higher at 3.3% of GDP in 2008.

**Capital Flows and External Balance Divergence**



Source: Department of Statistics, BNM, Kenanga Research

**Ringgit on a steady uptrend**



Source: BNM, Kenanga Research

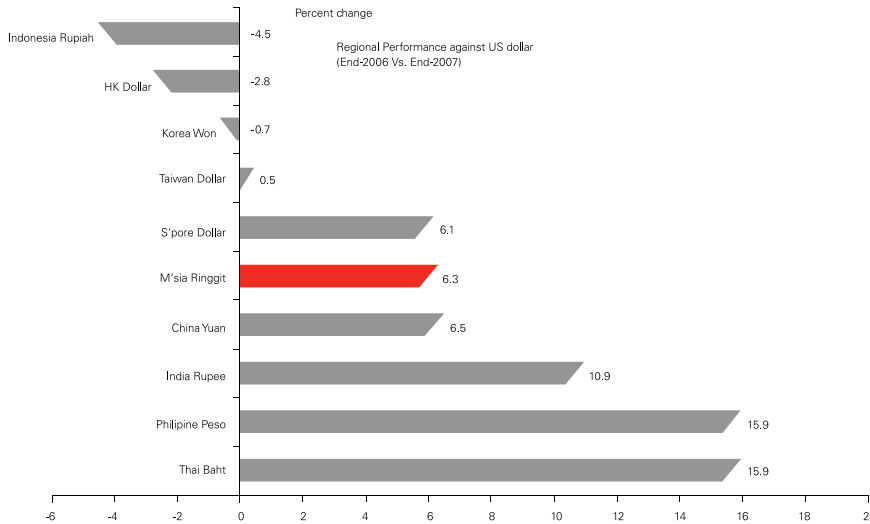
Meanwhile, the stock market rout in August which saw the year's biggest market correction of about 14.4% during the month, has caused a large outflow of portfolio capital reminiscent of the 1997 financial crisis. As a result, the net portfolio capital outflow could have exceeded RM40.0b in 2H07 and possibly almost wipe out the record RM41.5b of net inflows accumulated in 1H07. Nonetheless, the higher current account surplus has brought about a large accumulation of external reserves which had, by the end of 2007, reached US\$101.3b or the equivalent of 8.5 months of retained imports and 6.0 times total external debt. As at end of January, the BNM reserves reached a new record of US\$109.3b, proving continues inflow of capital in spite of the volatile financial market.

Backed by steady economic growth, large current account surplus, and enlarged forex reserves, the ringgit gained by about 6.3% to 3.3065 to the US dollar in 2007. The marked increase was also largely influenced by the broad US dollar weakening. The ringgit's appreciation is anticipated as it remains well undervalued relative to regional currencies. Technically, measured in terms of the nominal trade-weighted valuation, the ringgit showed a tendency to remain undervalued by at least 3.0%-5.0% given the current macro environment.

The consumer price index (CPI) subsided in 2007 to an estimated 2.0% after it jumped 3.6% in 2006 as the Government refrained from raising fuel prices. At the same time, BNM decided to leave its benchmark overnight policy rate (OPR) pat at 3.50% despite three rate cuts by the US Federal Reserves totaling 100 basis points (bps) to 4.25% in 2007. As BNM does not apply an inflation target in setting its monetary policy mandate, it has some flexibility to decide on interest rates. Priority, however, remains on achieving steady growth while keeping inflation in check.

# Bursa Malaysia Outlook (continued)

## Regional Currency Performance 2007

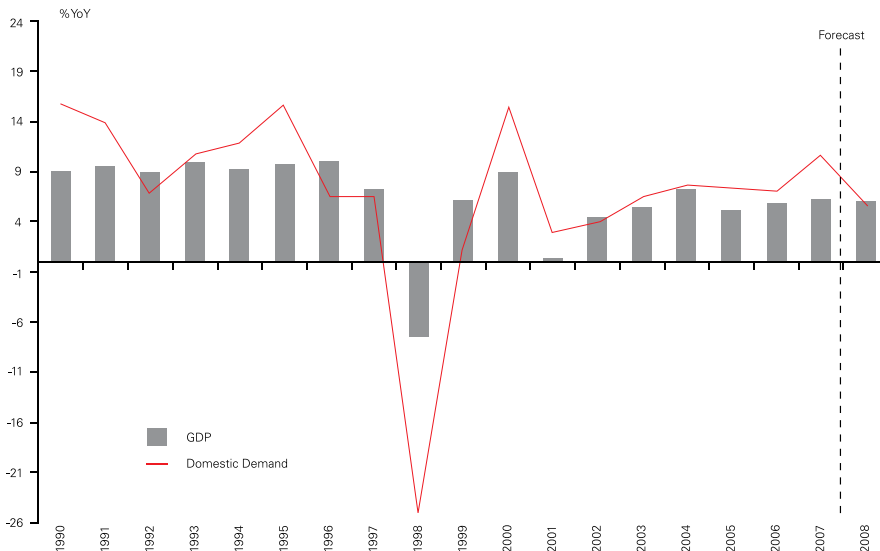


Source: BNM, Bloomberg, Kenanga Research

## Outlook for 2008

While Bank Negara Malaysia has recently projected the economy to grow between 5.0 and 6.0% for 2008 albeit lower than the earlier Ministry of Finance projection of 6.0% and 6.5% for 2008, we are maintaining our growth projection of 6.1%. Our forecast already takes into account the likely impact of the US economic slowdown and signs of erosion of competitiveness of Malaysia's E&E sector on the gradual strengthening of the ringgit. As the enlarged global imbalances continue to unwind triggering unabated financial market volatility, rising commodity prices would unleash inflationary risk to global growth.

## Real GDP Growth & Domestic Demand (%YoY)



Source: Dept. of Statistics, Kenanga Research

Given the backdrop of uncertainty in the global economy vis-à-vis the US economic growth, 2008 is expected to be another challenging year for the Malaysian economy. Realising the need to mitigate the impact of the external environment, the Government's monetary and fiscal policy stance would continue to be accommodative to support the economy.

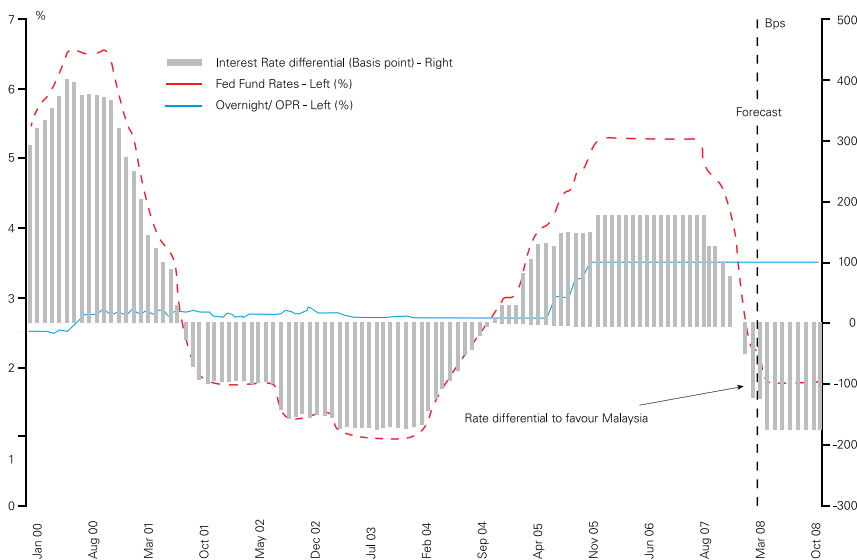
On the fiscal front, the Government's decision to further reduce the corporate tax rate is in line with its aggressive effort to woo foreign investors into Malaysia. Plus it would also realign with the average tax rate in the region (about 26%). However, we are still far behind Singapore's 18% corporate tax rate and its goods and services tax (GST) rate of 7%.

Nonetheless, the proposed 1.0% cut by 2009 to 25% may not be enough for Malaysia to be more competitive. Which is why we believe it has embarked on opening new growth areas to attract foreigners - Iskandar Development Region (RM382b), Northern Corridor Economic Region (RM178b) and Eastern Coast Economic Region (RM112b), Sarawak's Corridor of Renewable Energy (RM334b) and Sabah Development Corridor (RM105b) – on top of the many incentives thrown in. Furthermore, we believe the corporate and personal tax cut would be gradual in line with the plan to revive the implementation of the GST perhaps in 2009.

Meanwhile, the rise in world oil prices since August last year - to a record US\$111.80 a barrel on March 17 - combined with higher global grain and food prices, is likely to push up inflation over the next few months. This will exert pressure on the Government to hike up fuel prices. However, the Government has shelved its plan to hike fuel prices after the Barisan Nasional governing coalition party failed to garner the two-thirds majority for Parliamentary seats. It has also indefinitely postponed the plan to raise electricity tariff. Nonetheless, the headline inflation as measured by the consumer price index (CPI) is projected to accelerate to 2.6% in 2008 from 2.0% in 2007.

The risk of the expected bout of higher inflation is that it might get backed into higher expectations, leading to an upward spiral of prices and wages. That would make it harder for the central bank to lower interest rates later to counter economic weaknesses. With the growth potential of the domestic economy to be softened by external factors, going forward we believe that BNM would hold the Overnight Policy Rate (OPR) at 3.50% throughout 2008. Given the source of the inflationary pressures, when inflation is driven by global factors or supply shocks rather than domestic demand pressures, there are limits to what monetary policy can achieve. Even if inflationary threats escalates, we expect BNM to take a neutral stance as raising interest rates would incur larger portfolio capital inflows and generate higher volatility in the capital market. This would create an unprecedented rise in the appreciation of the ringgit and may erode Malaysia's competitive edge.

### US Fed Fund Rate Vs. Malaysia OPR



Source: Bank Negara Malaysia, Kenanga Research

Even if BNM decides to maintain interest rates at the current level, the ringgit may appreciate further. For one, the rate differential in Malaysia's favour would likely widen as the Fed may slash rates further. Since August last year, the Fed had slashed its Fed Fund rate by 300 basis points (bps) to 2.25% as at March. The market sees further possible cuts in rates amid deterioration in financial markets and the economic environment. Currently, the rate differential is 125 bps in favour of Malaysia's key benchmark rate over the US Fed fund rate. A further cut would precipitate large portfolio capital inflows and would create a large demand for Malaysian assets and exert upward pressure on the ringgit. As the ringgit already remains relatively undervalued based on our trade-weighted effective


exchange rate model, larger inflows would perpetuate demand for the ringgit and further boost its underlying value. However, we believe that in the interest of maintaining export competitiveness, the Government will ensure that the ringgit appreciation would be measured and gradual. The fact that the Government retains its ban on offshore trading would largely limit the ringgit volatility. Nonetheless, we may see the ringgit appreciate to 3.05 to the US dollar by end of 2008.

The core reason for the current strengthening of major and regional currencies, including the ringgit is the ongoing broad US dollar weakness. Never before in financial history has the "reserve currency of the world" been so burdened by debt or suffered from such serious structural imbalances. The risk that the dollar will continue to fall is logical and largely due to the continued unwinding of the global imbalances. With heightened credit market risk and the prospect of the US economy going into recession, the propensity to accumulate dollar-denominated assets appears to diminish. The current market turbulence precipitates further unwinding of dollar-backed assets thus exerting downward pressure on the value of the US currency. In short, the US will no longer be able to easily fund its deficit by issuing treasury and corporate bonds. As the problem is structural and affects the financial market as well as the economy, the unwinding of the global imbalance would continue for years to come. Hence, this would probably provide the support for a steady ringgit appreciation interspersed with periods of high volatility in the next year or two.

# Bursa Malaysia Outlook (continued)

## Beyond 2008

Malaysia's economy may be resilient but we do not fully ascribe to the fact that it is entirely immune from the current global financial and economic turmoil. Nonetheless, the Malaysian economy and financial system is much sturdier than it was a decade ago. A slowdown in the US economy is inevitable as property related downturn tend to be deep and prolonged. The assumption is that the US economy would go on a modest contraction for at least two quarters before it gradually recovers. Our soft landing assumption is backed by aggressive monetary and fiscal policy efforts by the US Government to nurse the economy back to growth recovery.

Once the US economy begins to recover, it would immediately precipitate an inventory build up of E&E products globally. This would help spur Malaysia's export growth which has been languishing at single digits since 2005. Combined with sustained strong demand for commodity, the trade and current account balance would widen and remain above RM100b. Given the excess resource balanced along with the assumption that the recovery of the US and global growth would start to kick in by the end of the year, the Malaysian economy would resume its uptrend and may achieve its growth potential exceeding 6.0% beyond 2008. Meanwhile, the stronger economy and healthier macro balance is expected to support the case for an upward revaluation of the ringgit. Hence, we might see further strengthening of the ringgit, testing the sub-3.00 level to the US dollar in 2009. 

## Malaysia's Economic Snapshot and Forecast

	2001	2002	2003	2004	2005	2006	2007P	2008F	2009F
<b>Real GDP (% YoY)</b>	<b>0.5</b>	<b>5.4</b>	<b>5.8</b>	<b>6.8</b>	<b>5.0</b>	<b>5.9</b>	<b>6.3</b>	<b>6.1</b>	<b>6.5</b>
Nominal GDP (US\$b)	92.8	100.8	110.2	124.7	137.2	148.0	183.0	219.1	250.8
<b>Per Capita Income (US\$)</b>	<b>3,384</b>	<b>3,615</b>	<b>3,915</b>	<b>4,378</b>	<b>4,772</b>	<b>5,388</b>	<b>6,589</b>	<b>7,719</b>	<b>8,454</b>
<b>RM/US\$ (end-period)</b>	<b>3.80</b>	<b>3.80</b>	<b>3.80</b>	<b>3.80</b>	<b>3.78</b>	<b>3.52</b>	<b>3.30</b>	<b>3.05</b>	<b>3.00</b>
CPI (%)	1.4	1.8	1.1	1.5	3.1	3.7	2.0	3.1	2.7
<b>Overnight Policy Rate (% at end-period)</b>	<b>2.80</b>	<b>2.80</b>	<b>2.70</b>	<b>2.70</b>	<b>3.00</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>	<b>3.75</b>
Base lending rate (% at end period)	6.40	6.40	6.00	6.00	6.00	6.80	6.70	6.70	6.70
Interbank overnight (% at end-period)	2.75	2.79	2.71	2.69	2.70	3.60	3.60	3.60	3.90
<b>Current Acc. Balance (RMb)</b>	<b>27.7</b>	<b>30.5</b>	<b>50.6</b>	<b>56.5</b>	<b>75.7</b>	<b>93.4</b>	<b>97.6</b>	<b>90.6</b>	<b>99.6</b>
% of GNP (Nominal)	8.5	8.5	12.8	12.7	15.3	16.8	15.8	13.2	13.9
<b>Trade Balance (RMb)</b>	<b>54.1</b>	<b>54.3</b>	<b>81.3</b>	<b>80.7</b>	<b>99.8</b>	<b>108.2</b>	<b>100.8</b>	<b>101.7</b>	<b>111.3</b>
Exports f.o.b. (%YoY)	-10.4	6.9	11.3	20.8	11.0	10.3	2.8	1.5	6.1
Imports c.i.f. (%YoY)	-10.0	8.2	4.4	26.4	8.5	10.8	5.0	1.6	5.4
<b>External Reserves (US\$b)</b>	<b>30.8</b>	<b>34.6</b>	<b>44.9</b>	<b>66.7</b>	<b>70.5</b>	<b>82.5</b>	<b>101.3</b>	<b>135.0</b>	<b>155.0</b>
<b>Fed. Gov. Overall Bal. (RMb)</b>	<b>-18.4</b>	<b>-20.3</b>	<b>-20.9</b>	<b>-19.4</b>	<b>-18.7</b>	<b>-19.1</b>	<b>-20.3</b>	<b>-22.4</b>	<b>-21.0</b>
% of GDP (Nominal)	-5.2	-5.3	-5.0	-4.1	-3.6	-3.3	-3.2	-3.3	-2.8
<b>Unemployment (%)</b>	<b>3.6</b>	<b>3.5</b>	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>
Population (Million)	24.0	24.5	25.0	25.6	26.1	26.6	27.2	27.8	28.5

Source: Department of Statistics Malaysia, Kenanga Research, E: Estimate, F: Forecast, P: Preliminary

# Chairman's Statement



Dear Shareholders

On behalf of the Board of Directors of K & N Kenanga Holdings Berhad ("Kenanga Holdings"), I am pleased to present to you the Annual Report and Audited Financial Statements of the Company for the financial year ended 31 December 2007.

## Financial Performance

The Malaysian economy remained robust in 2007 with a stable currency and low interest rates drawing in investments for development projects under the Ninth Malaysia Plan. Gross domestic product ("GDP") grew marginally to 6%, from 5.9% in 2006. For most of the financial year, the business environment remained bullish until the last quarter of the year when record crude oil prices and the US subprime mortgage crisis started to weigh on financial markets. The equities market main index, the KLCI, reached a high of 1,447 points on 28 December 2007.

Against these market conditions, the Kenanga Group delivered impressive results. For the financial year ended 31 December 2007, the Kenanga Group achieved revenues of RM308 million which is an improvement of 138% over the previous year (2006: RM129 million). Profit before tax for the year from continuing and discontinued operations increased by 321% to RM170.6 million from RM40.4 million in 2006.

The profit of RM170.6 million included gains totaling RM37.5 million arising from the disposal of its building, "Kenanga International" to Injaz AsiaEquity Property Berhad of RM37.3 million, and a wholly owned subsidiary, Kenanga Investment Management Sdn Bhd of RM233,000.

In line with this, the Group's basic earnings per share increased from 4.69 sen in 2006 to 23.07 sen in 2007. The main contribution to revenues and profit before tax was gross brokerage fees which increased from RM109.7 million to RM242.7 million.

# Chairman's Statement (continued)

## Foreign Ventures

Kenanga Group continues its path towards establishing a global footprint as it expands its presence into other countries. We are committed to build our stockbroking and investment banking businesses not only in Malaysia but across the various regions by identifying appropriate strategic partners in selected countries. We recognise that there is inherent country-risk which must be mitigated by ensuring, amongst others, that we have the right partner with in-depth local knowledge, its culture and its people.

Our Sri Lankan joint-venture company, SMB-Kenanga Investment Corporation (Pte) Ltd, officially launched in May 2007, delivered a profit before tax of LKR4.4 million in its first year of operations. In addition, and with the aid of our esteemed partner in Sri Lanka, Seylan Merchant Bank, we are working towards having a toe-hold in the vast capital markets industry in India.

In September 2007, our wholly-owned Investment Bank, Kenanga Investment Bank Berhad ("KIBB"), entered into a Memorandum of Understanding ("MOU") with GoodMorning Shinhan Securities Co. Ltd of Korea. This was followed by a similar tie-up with Indonesia's PT Hortus Danavest in November 2007.

These MOUs are to enable Kenanga Holdings and its partners to collaborate and access each others' markets in the areas of stockbroking, investment banking and ancillary services.

Significantly, in December 2007, Kenanga Holdings signed a MOU whereby Kenanga Holdings or its subsidiary company will purchase up to 49% equity interest in Vietnam Golden Securities Corporation, a company licensed by the State Securities Commission of Vietnam. The company will be able to conduct stockbroking and advisory operations, custodian services and other such securities related activities in Vietnam.

The Company's interest in the Kingdom of Saudi Arabia through 29.6% owned Alwasatah Almaliah Co. is finally taking shape with significant progress achieved in office renovation works and the putting in place of the necessary systems, processes and procedures. These efforts are targeted at a business operations launch for the last quarter of 2008.

The Company entered into a partnership with key strategic Middle East partners to establish MENA Financial Group Ltd ("MENA"), an investment banking services company that was granted a licence in June 2007 by the Dubai Financial Service Authority (DFSA) to operate as an authorised firm in the Dubai International Financial Centre ("DIFC"). Operating from their office located in the DIFC, MENA will provide a comprehensive suite of conventional and Islamic financial and investment services to its clients throughout the region. Leveraging on our Middle East partners' wide circle of contacts, and extensive knowledge of the capital markets in the Middle East, and our own investment banking expertise, MENA will focus on facilitating deal flows between the Middle East and North African region, and the Asian markets, offering to clients in Asia and the Middle East direct access to investment opportunities in both high growth regions.

The Presence of MENA enhances KIBB's status as an approved Listing Sponsor for the listing of companies on the Dubai International Financial Exchange. With this, the level of cross border financial and capital market transactions between the Gulf and South East Asian financial markets can only grow from its current base.

## Awards

I am happy to note that for yet another year, Kenanga Deutsche Futures Sdn Bhd maintained its position as the leading futures broker in Malaysia and was awarded the "Top Overall Futures Broker" by Bursa Malaysia Derivatives Berhad for the fifth consecutive year as well as "Top Equity Futures Broker 2007".

**Dividends**

The Board of Directors is pleased to recommend a first and final dividend of 5% (less 26% taxation) for the year ended 31 December 2007 for approval by the shareholders at the upcoming Annual General Meeting.

**In Appreciation**

I would like to take this opportunity to thank our management and staff for their unwavering support and commitment towards sustaining the growth and success of the Group. I would also like to thank our shareholders, stakeholders, regulators and relevant authorities, bankers, advisors, brokers, remisiers, business associates and clients for their support year after year.

The challenges ahead of us are many as the industry catches up with the changes that are happening globally. I am confident that whatever challenges lie ahead will be met by a committed and loyal team that has contributed much to the growth of Kenanga Group. I believe that we have a vast pool of talent within our organisation and am confident that together and with the guidance of the authorities, particularly Bank Negara Malaysia and the Securities Commission, we will be able to deliver on our commitment to shareholders.

Thank you.

YM TENGKU DATO' PADUKA NOOR  
ZAKIAH BINTI TENGKU ISMAIL

# Operations Review

## **Kenanga Investment Bank Berhad (“KIBB”)**

2007 marked the first year that KIBB operated as a full fledged investment bank. Its main income contributors would be from equity broking and originations for all investment banking products and services and advisory services in both the equity and debt markets.

In late 2006, the Malaysian stock market experienced a surge in trading values averaging monthly values of about RM65billion compared to monthly average trading values experienced prior to November 2006 of RM42billion. The upward trend in trading values continued in 2007, averaging RM97billion a month.

Accordingly, KIBB’s equity broking division experienced an average increase in its market share of about 12% in 2007 resulting in it being the major contributor to the Group’s revenue and profit for the year of more than 75%.

2007 was a volatile and difficult year globally and the Malaysian economy was not spared. The external uncertainties arising from the subprime housing mortgage crisis in the United States created turmoil in the global financial markets coupled with the fear of inflationary pressures following crude oil prices hitting an all time high above USD100.

Since attaining the investment banking status, the bank has been actively pursuing various mandates to build up its business franchise.

Whilst the competitive landscape for domestic investment banking is expected to intensify with the entrance of foreign players following liberalisation and the transformation of other local institutions into investment banks, the bank is confident that it will be able to secure more mandates going forward given that the Malaysian economy is expected to continue to strengthen, between 5% to 6% with positive contribution from all sectors of the economy and the implementation of the 9th Malaysian Plan Construction Projects gaining momentum in 2008.

## **Kenanga Deutsche Futures Sdn Bhd**

The global financial and commodity market recorded increased volatility in 2007. On the domestic front, historical volatility in KLCI futures (“FKLI”) contract increased from 10.76% in 2006 to 20.47% in 2007, whereas in Crude Palm Oil futures (“FCPO”), historical volatility increased from 15.56% in 2006 to 24.96% in 2007.

The bullish trend has continued into 2008 and we expect this to be another challenging year. Bursa has launched the Direct Market Access for the derivatives market to be followed by US Dollar palm oil contract (FUPO). We are positive that these access liberalisation and product developments will propel the domestic derivatives industry to greater heights.

Kenanga Deutsche Futures Sdn Bhd (“KDF”) continued to maintain its leading position in the industry and was awarded the “Top Overall Futures Broker” by Bursa Malaysia Derivatives Berhad for the fifth consecutive year. Additionally, KDF was also awarded the “Top Equity Futures Broker 2007” by Bursa Malaysia Derivatives Berhad in recognition of its contribution to the growth in FKLI.

### **Kenanga Capital Sdn Bhd**

The wholly-owned financing subsidiary, Kenanga Capital Sdn Bhd, posted significant growth in turnover and profits compared to the previous financial year in line with the improved level of confidence in the equity market. With increased involvement in financing large corporate placement exercises, coupled with the ability to offer a range of financial products and services, the company recorded an 83% increase in pre-tax profit over the previous year.

Given the backdrop of uncertainty in the global financial markets going into 2008 and its impact on Malaysia's equity market, the company plans to remain focused in marketing and managing its financing business to continue achieving growth in its turnover and profitability.

### **Kenanga Management & Services Sdn Bhd**

Kenanga Holdings completed the disposal of its building, Kenanga International, to Injaz AsiaEquity Property Berhad via a sale and leaseback arrangement, for a sum of RM165million in June 2007.

On 21 May 2007, an agreement for the lease of the 4th to 20th floors was signed between Kenanga Investment Bank Berhad and Injaz AsiaEquity Property Berhad.

The company recorded a profit after tax of RM40.85 million for the financial year. Subsequent to the sale of the building, the company's activities will be the management of the building and car park.

### **Kenanga Asset Management Sdn Bhd**

Kenanga Asset Management Sdn Bhd ("KAM") commenced operations in 2007. Staffed with experienced personnel in both front and back offices, KAM is able to offer clients a full range of fund management products and services, covering investments in both local and foreign equities and fixed interest instruments. By 31 December 2007, KAM had RM67.13 million of third party clients' assets under management. These clients include unit trust funds, a private pension fund and corporate funds.

### **Capital Investment Bank (Labuan) Ltd**

Capital Investment Bank (L) Ltd's primary focus is meeting the cross-border/offshore needs of middle tier companies in Asia. The bank's expertise is in Structured Finance, Mergers & Acquisition, Project Finance, Cross-border Trade & ECA Finance. During the year, the bank clinched more than six mandates from clients in Indonesia, Cambodia, UAE and Sri Lanka.

### **Information Technology Highlights**

Enhancing the Bank's technology platform to reach out to clients and to enhance customers' experience remains the biggest challenge for the technology division. This is in addition to the perennial need to meet the growing accounting and business information needs of management across the various business units of the Bank.

During the year, various application systems were implemented to support the growing investment banking activities of the Bank. These included modules for the management of foreign exchange transactions, collateral management and extending Bank Negara Malaysia's compliant applications such as "Credit Reference Information System" (CCRIS) for credit information and "International Transactions and External Position System" (ITEPS) for foreign exchange information.

# Operations Review (continued)

## **Information Technology Highlights (continued)**

A major investment consistent with the Bank's own goals was in technology and infrastructure upgrade in preparation for Bursa Malaysia's new and modern equities and derivatives trading platform, "BURSA TRADE". Slated to be launched in 2008, the new trading platform is expected to cater to faster and increased trading volumes and multiple products across multiple markets.

Also benefiting equities broking is the commencement of work on the Bank's inbound/outbound trading system, which upon completion in the second quarter of 2008, will give clients access to major markets in the region and across different time zones.

The equities online Internet trading system was also enhanced to support the Bank's initiatives in promoting online trading in line with the regulator's decision on negotiable commission rates for Internet trading and cash upfront transactions. Some of the new features include near straight through processing to improve turnaround time and increased network resilience in anticipation of higher trading volumes.

Initiatives are on-going for the exploitation of the vast business potential of the Bank's client base through data-mining and further enhancements to the Bank's "Electronic Document Management System" to promote a paper-less environment.

# Audit Committee Report

The Audit Committee meets regularly with senior management and internal audit management, and the external auditors, to review the Company's and the Group's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance with existing operational procedures.

## MEMBERS

The Audit Committee consists of three (3) members all of whom are Non-Executive Directors. The Company has complied with Paragraph 15.10 of Bursa Malaysia Securities Berhad's ("Bursa Securities") Listing Requirements, which requires the majority of the Audit Committee to be Independent Directors.

The present members of the Audit Committee of the Company are:-

1. YM Raja Dato' Seri Abdul Aziz Bin Raja Salim  
(Independent Non-Executive Director)  
(Chairman)
2. Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain  
(Independent Non-Executive Director)
3. Kevin How Kow  
(Independent Non-Executive Director)

## MEETINGS

During the financial year ended 31 December 2007, the Audit Committee comprising the following members held a total of five (5) meetings. The details of attendance of the Committee members are as follows:-

Name of Committee Member	No. of Meetings attended
YM Raja Dato' Seri Abdul Aziz Bin Raja Salim (Independent Non-Executive Director) (Chairman)	4/5
Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain (Independent Non-Executive Director)	5/5
Kevin How Kow (Independent Non-Executive Director)	5/5
Y Bhg Dato' Ramli Ismail (Managing Director) (Resigned on 22 November 2007)	4/4

## ACTIVITIES OF THE AUDIT COMMITTEE

The activities undertaken by the Audit Committee during the financial year ended 31 December 2007 were as follows:-

1. Reviewed and approved the scope and adequacy of the internal audit plans including resource needs;
2. Reviewed with management and the external auditors the Company's general policies and procedures to reasonably ensure the adequacy of internal accounting and financial reporting controls;
3. Reviewed the unaudited quarterly results and annual financial statements of the Company and the Group prior to their submission to the Board for approval and release of the Group's results to the relevant authorities;
4. Reviewed the internal audit reports for the Group's companies, audit recommendations made and management response to these recommendations and actions taken to improve the system of internal controls and procedures. A total of 38 internal audit reports were tabled in 2007;

# Audit Committee Report (continued)

## ACTIVITIES OF THE AUDIT COMMITTEE (CONTINUED)

5. Reviewed 32 processes and procedures manuals drawn up by Management of Kenanga Investment Bank Berhad and other subsidiary companies before being presented by the management to Board for approval.
6. Reviewed the results of the risk-based audit works carried out by the internal auditors to ensure all key risks and controls have been addressed;
7. Reviewed the inspection and examination reports issued by the regulatory authorities and the status of remedial actions taken by management in respect of such findings;
8. Reviewed the following Statements/Report before being tabled to the Board for approval for inclusion in the Annual Report:-
  - Statement of Internal Control
  - Corporate Governance Statement
  - Audit Committee Report
9. Tabled the minutes of each Committee meeting to the Board for its notation, and for further direction by the Board, where necessary.
10. Reviewed the recurrent related party transactions reviews carried out by Internal Auditors on quarterly basis to ensure that recurrent transactions are undertaken on an arm's length basis and on normal commercial terms and are not detrimental to the minority shareholders.

## EVALUATION OF AUDIT COMMITTEE

The Board of Directors shall review the term of office and the performance of the Audit Committee and each of its members at least once in every three (3) years to determine whether the Audit Committee has carried out its duties in accordance with its terms of reference.

An evaluation of the Audit Committee's performance was carried out in 2005. The Board was satisfied that the Audit Committee had carried out its duties well.

## TERMS OF REFERENCE

### Composition

The Audit Committee shall be appointed from among their members and should consist of no fewer than three (3) members, all of whom shall be non-executive directors. The majority of the Committee members shall be independent directors.

At least one member of the Committee:-

- i. must be a member of the Malaysian Institute of Accountants ("MIA") or
- ii. if he is not a member of the MIA, he must have at least three (3) years' working experience and:-
  - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
  - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- iii. fulfils such other requirements as prescribed by Bursa Securities.

No alternate director shall be appointed as a member of the Audit Committee.

The Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board.

In the event of any vacancy in the Audit Committee resulting in the number of members being reduced to below three (3), the Company must fill the vacancy within three (3) months.

### Authority

The Audit Committee shall be granted the authority to investigate any activity of the Company and its subsidiaries within its terms of reference and all employees shall be directed to cooperate as and when required by the Audit Committee. The Committee shall also be empowered to consult independent experts, where necessary, to assist in executing its duties and shall have direct communication channels with the external and internal auditors. The internal audit function shall report directly to the Audit Committee.

## Meeting

The Committee shall meet at least four (4) times a year and such additional meetings as the Chairman shall decide in order to fulfil its duties. In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

Other Board members and employees may attend meetings upon the invitation of the Audit Committee. However, at least once a year, the Committee shall meet with the external auditors without any executive Board member present. In order to form a quorum, the majority of members present must be independent directors.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee and the Board. The Chairman of the Audit Committee shall report on each meeting to the Board.

## Responsibilities and Duties of the Committee

The duties and responsibilities of the Committee shall include:-

1. To review :-
  - a. With the external auditors, the audit plan;
  - b. With the external auditors, the evaluation of the systems of internal controls of the Group and audit findings;
  - c. With the external auditors, the auditors' report;
  - d. The assistance given by the Company's officers to the internal and external auditors;
  - e. The adequacy of the scope, functions, competency and resources of the internal audit department and that it has the necessary authority to carry out its work;

- f. The internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit department;
  - g. Any problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to discuss;
  - h. The quarterly results and year end financial statements of the Company, prior to approval by the Board of Directors, focusing particularly on:-
    - h.1 changes in or implementation of major accounting policy changes;
    - h.2 significant and unusual events; and
    - h.3 compliance with accounting standards and other legal requirements.
  - i. Any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
2. To recommend the appointment of the external auditors and in relation thereto, to discuss their audit fees and any questions of resignation or dismissal.
  3. To monitor organisational compliance with statutory and Bursa Securities' requirements.
  4. To perform any other functions as may be mutually agreed by the Committee and the Board of Directors.

## Secretary

The Secretary of the Company shall also be the Secretary of the Committee.

# Corporate Governance Statement

The Board of Directors of K&N Kenanga Holdings Berhad recognises the importance of good corporate governance in directing the businesses of the Group and is committed to ensure that the highest standards of corporate governance are implemented and consistently practised throughout the Group in discharging its duties and responsibilities to safeguard and enhance shareholders' value and the financial performance of the Group. In compliance with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Group has taken further steps in the year 2007 to ensure that the Group's operations are managed with transparency, integrity and accountability whilst internal control systems are further strengthened to enhance the checks and balances that have always been an integral part of the Group's business plan and operations.

## Compliance with the Code

The Board is pleased to report on the application by the Group of the principles of Corporate Governance as contained in the Malaysian Code on Corporate Governance ("the Code") and the extent of compliance with the best practices as set out in the Code. The Board is of the opinion that it has adhered to the principles and complied in all material respects with the Best Practices outlined in the Code.

## 1.0 THE BOARD OF DIRECTORS

### 1.1 Composition and Board Balance

The Board of Directors has the overall responsibility for the performance of the Group by maintaining full and effective control over strategic, financial, operational, compliance and corporate governance issues.

The Board of Directors currently consists of ten (10) members, two (2) of whom are Executive Directors, five (5) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors.

The Board views that the number and composition of the current Board members as sufficient and well-balanced for the Company to carry out its duties effectively, whilst providing greater assurance that no individual or small group of individuals can dominate the Board's decision making.

The profile of the Directors, reflecting their diverse backgrounds and experience in both public sector service and different areas of the corporate sector, are presented separately on pages 6 to 10 of this Annual Report.

The composition of the Board is also in compliance with Paragraph 15.02 of the Listing Requirements of Bursa Securities which requires one-third of the Board members to be independent directors.

Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain is the Senior Independent Non-Executive Director to whom concerns may be conveyed.

All Board members participate in discussions and decisions on the key issues involving the Group and include the approval of major investments and financial decisions and annual budgets including key policies and procedures.

The presence of three (3) Independent Non-Executive Directors who are persons of calibre and credibility ensures that the Board is well balanced and could carry sufficient weight on Board's decisions. Although all the Directors have equal responsibilities for the Group's operations, the role of these independent non-executive directors is particularly important in ensuring that all business strategies proposed by the Management are fully discussed, and take into account the long term interest, not only of shareholders, but also employees, customers, suppliers and other stakeholders in which the Group operates.

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Chairman of the Board is responsible for ensuring Board's effectiveness and decorum whilst the Managing Director has overall responsibility for the operational and business units, organisational effectiveness and implementation of Board policies, directives, strategies and decisions.

## 1.2 Responsibilities of the Board of Directors

The Board plays a primary role in corporate governance by setting out the strategic direction of the Group, establishing goals, monitoring the achievement of the goals and ensuring a high degree of transparency and accountability towards all stakeholders.

## 1.3 Board Structures and Procedures

During the financial year ended 31 December 2007, five (5) Board meetings were held. Details of each Director's attendance at such meetings are as set out below:-

Directors	Total No. of Meetings	No. of Meetings Attended	% of Attendance
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	5	5	100
Dato' Ramli Ismail	5	5	100
Abdul Aziz bin Hashim	5	5	100
YM Raja Dato' Seri Abdul Aziz Bin Raja Salim	5	5	100
Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain	5	5	100
Haji Salleh Bin Abdullah	5	5	100
Kevin How Kow	5	5	100
Luigi Fortunato Ghirardello	5	3	60
Charles McLaughlin	4	5	80
Dato' Richard Alexander Curtis	5	5	100

## 1.4 Directors' Training

In compliance with the Listing Requirements of Bursa Securities, all members of the Board have completed the Mandatory Accreditation Programme.

As required by Bursa Securities, a training programme consisting of the following topics were conducted in-house for members of the Board by an external training provider, Professor Nabil Zaki:-

- Introduction to Investment Banking on 26 and 27 April 2007.
- Introduction to Risk Management on 23 May 2007.

Dato' Richard Curtis has attended a training programme on "Improving Board of Directors' Performance, Leadership and Governance" conducted by James Crown, CEO of Knowledge Group Consulting Sdn Bhd. The Directors will continue to participate in other relevant training programmes to keep abreast with the latest developments in the securities industry, particularly in areas of corporate governance and regulatory changes so that they would be able to discharge their duties as Directors efficiently and effectively.

# Corporate Governance Statement (continued)

## 1.5 Appointments to the Board

The appointment of any additional Director is made as and when it is deemed necessary by the existing Board with due consideration given to the mix of expertise and experience required for an effective Board.

The Board itself functions as the Nomination Committee.

## 1.6 Retirement and Re-election of Directors

The Company's Articles of Association requires at least one-third (1/3) of the Board of Directors to retire from office at each Annual General Meeting and subject to eligibility can offer themselves for re-election. Directors who are appointed by the Board during any part of the year are subject to election by shareholders at the next Annual General Meeting following their appointments. The Directors also shall retire from office at least once in three (3) years, but shall be eligible for re-election.

Directors who are over seventy (70) years of age are subject to retirement annually and may seek re-appointment in accordance with Section 129(6) of the Companies Act 1965. Currently two of our Directors are above the age of 70.

## 1.7 Supply of Information

The agenda and board papers are circulated to all Board Members prior to Board meetings to give Directors time to deliberate on issues to be raised at the Board meetings.

The Board is kept updated on the Group's activities and their operations on a regular basis. The Directors also have access to reports on the Group's activities, both financial and operational.

All Directors have full and unrestricted access to the services of the Company Secretary and the Board members may also take independent professional advice, at the Company's expense, in furtherance of their duties in the event such services are required. However, no such advice was sought by any of the Directors during the year 2007.

The Board members also have unlimited access to all information with regards to the activities of the Company and the Group.

## 1.8 Relationship of the Board to Management

- Quality of Information  
Information plays a key role in the Board's decision-making and in setting up the policies and strategies of the Group.

The Board has unrestricted access to timely and accurate information, which is not only confined to qualitative and quantitative information, but also to other information deemed suitable such as customer satisfaction, product and services quality, market share, market reaction and macro economic performance.

- Use of Board Committees  
As appropriate, the Board has delegated certain of its responsibilities to Board Committees, which operate within the clearly defined terms of reference.

The Committees are:-

- a. Audit Committee
- b. Remuneration Committee
- c. Tender Committee

## 2.0 DIRECTORS' REMUNERATION

### 2.1 The level and make-up of remuneration

The Directors' fees are approved by the shareholders at the Annual General Meeting.

The remuneration of the Directors of the Company for the financial year ended 31 December 2007 is set out below:-

i. Aggregate remuneration of Directors with categorisation into appropriate components:-

#		Executive Directors (RM)	Non Executive Directors (RM)	Total (RM)
	Fees	-	320,000	320,000
	Salary	1,811,250	-	1,811,250
	Bonus	704,374	-	704,374
	Meeting Allowance	-	43,000	43,000
	Leave passage	133,656	-	133,656
	Benefits-In-Kind/ Perquisites	104,610	-	104,610

# subject to shareholders' approval at the forthcoming Annual General Meeting.

ii. The number of Directors whose remuneration falls into the following bands:-

	Executive Directors	Non Executive Directors	Total
RM50,000 and below	-	1	1
RM50,001 – RM100,000	-	4	4
RM1,350,001 – RM1,400,000	2	-	2

## 3.0 SHAREHOLDERS

### 3.1 Investor Relations and Shareholder Communication

The Group values dialogue with investors as a means of effective communication that enables the Board to convey information about the Group's performance, corporate strategy and other matters affecting shareholders' interests.

The Annual General Meeting is the principal forum for dialogue with individual shareholders. It is a crucial mechanism in shareholder communication for the Company.

At the Company's Annual General Meeting, shareholders have direct access to the Board members and are given the opportunity to raise questions pertaining to the Group's business activities prior to moving for approval of the Company's Audited Financial Statements and Directors' Report for the financial year and other businesses (if applicable).

# Corporate Governance Statement (continued)

## 3.0 SHAREHOLDERS (continued)

### 3.1 Investor Relations and Shareholder Communication (continued)

The Board is also committed to ensure that the shareholders and potential investors are well informed of major developments of the Company and the information is communicated to them through the following means:-

- a. the Annual Report;
- b. various disclosures and announcements made to Bursa Securities including the quarterly results and annual results;
- c. press releases; and
- d. the Company's website [www.kenanga.com.my](http://www.kenanga.com.my) through which shareholders and the public in general can gain access to the latest corporate information of the Group.

Shareholders and investors who wish to contact the Company on matters relating to their shareholdings may channel their queries to the following personnel:-

Name : Ms Wendy Yap (Company Secretary)  
 Contact No. : 03-21621490 ext 8514  
 E-mail Address : [wendy@kenanga.com.my](mailto:wendy@kenanga.com.my)

Name : Mr Liong Cheong Tuck (Senior Manager)  
 Symphony Share Registrars Sdn Bhd  
 Contact No. : 03-2721 2222 ext 118  
 E-mail Address : [ssrs@symphony.com.my](mailto:ssrs@symphony.com.my)

### 3.2 Annual General Meeting

Notice of Annual General Meeting and the Annual Report are despatched to shareholders at least 21 days before the date of the meeting.

Each item of special business included in the notice of meeting will be accompanied by an explanatory statement for the proposed resolution to facilitate full understanding and evaluation of the issues involved.

## 4.0 ACCOUNTABILITY AND AUDIT

### 4.1 Financial Reporting

The Board acknowledges its responsibilities to shareholders and the requirement to present a balanced and comprehensive assessment of the Group's financial position, by means of the annual and quarterly reports and other published information. In this regard, the Board is primarily responsible for the preparation of the financial statements to present a fair and balanced report of the financial state of affairs of the Group.

The quarterly and annual financial results are reviewed by the Audit Committee and approved by the Board of Directors prior to release to Bursa Securities. The details of the Company's and the Group's financial positions are included in the Financial Statements section of the Annual Report.

### 4.2 Internal Control

The Statement on Internal Control set out on page 33 to 34 of this Annual Report provides an overview of the state of internal control within the Group.

### 4.3 Audit Committee

The Audit Committee meets a minimum of four times a year on a quarterly basis with senior management and yearly with internal audit management, and yearly with the external auditors to review the Company's and the Group's financial reporting, the nature and scope of audit reviews, and the effectiveness of the system of internal controls and compliance.

The terms of reference and activities of the Audit Committee during the financial year ended 31 December 2007 are set out on pages 23 to 25 of this Annual Report.

### 4.4 Internal Audit

The Group has an Internal Audit Department, which assists the Audit Committee in the discharge of its duties and responsibilities. Its role is to provide independent and objective reports to the Board via the Audit Committee on the Group's management, records, accounting policies and system of internal controls. The internal audits include evaluation of the processes by which significant risks are identified, assessed and managed. Such audits also ensure implemented controls are appropriate and are effectively applied to achieve acceptable risk exposure in line with the Group's risk management policy.

The Internal Audit Department operates independent of the management of the Group.

### 4.5 Relationship with External Auditors

The Board has via, the Audit Committee, maintained a formal and transparent professional relationship with the external auditors, Messrs Ernst & Young, in seeking professional advice and ensuring compliance with the applicable accounting standards and statutory requirements.

The auditors are invited to attend the meeting of the Audit Committee and to present the audited financial statements of the Group. The external auditors have continued to report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements.

## 5.0 DIRECTORS' RESPONSIBILITY STATEMENT ON ANNUAL FINANCIAL STATEMENTS

The Board of Directors is required under Paragraph 15.27(a) of the Listing Requirements of Bursa Securities to issue a statement explaining its responsibility in the preparation of the annual financial statements.

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

In preparing those financial statements, the Directors are required to:-

- a. use appropriate accounting policies and consistently apply them;
- b. make judgements and estimates that are reasonable and prudent; and
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the provisions of the Companies Act, 1965.

# Corporate Governance Statement (continued)

## 5.0 DIRECTORS' RESPONSIBILITY STATEMENT ON ANNUAL FINANCIAL STATEMENTS (continued)

The Directors are satisfied that in preparing the financial statements of the Group for the year ended 31 December 2007, the Group has used appropriate accounting policies and applied them consistently and prudently. The Directors are of the opinion that all relevant approved accounting standards have been followed and confirmed that the financial statements have been prepared on a going concern basis.

### OTHER INFORMATION

- **Options, Warrants or Convertible Securities**

The Company did not issue any options, warrants or convertible securities during the financial year.

- **Share buy-back**

The Company did not undertake any share buy-back during the financial year.

- **Utilisation of proceeds**

This is not applicable as the Company did not undertake any corporate exercises during the year.

- **American Depository Receipt ("ADR")/Global Depository Receipt ("GDR")**

The Company did not sponsor any ADR or GDR programmes during the financial year.

- **Sanctions and/or Penalties**

There were no sanctions and/or penalties imposed on the Company and its subsidiary companies, Directors or management by the relevant regulatory bodies.

- **Non-Audit Fees**

The total amount of non-audit fees payable to the external auditors by the Company and its subsidiaries for the financial year amounted to RM1,765.00 and RM214,685.55 respectively.

- **Variation in results**

There were no profit estimate, forecast or projection issued by the Company and its subsidiary companies during the financial year.

- **Profit Guarantee**

There were no profit guarantees given by the Company and its subsidiary companies during the financial year.

- **Material Contracts**

There were no material contracts entered into by the Company or its subsidiary companies involving Directors' and major shareholders' interests, which subsisted at the end of the financial year ended 31 December 2007 or, if not then subsisting, entered into the previous financial year.

- **Corporate Social Responsibility**

The Group has been committed to a policy of social responsibility by continuously contributing to the welfare, development and progress of the community. The Group has made substantial donations to various charities nationwide in an effort to help improve the lives of the less fortunate over the years. In this fiscal year, to name a few: Gabungan Pelajar Melayu Semenanjung, Sekretariat Anugerah Ushawan Wanita, Yayasan Bursa Malaysia, The Malaysian Aids Foundation, Women's Aid Organisation, Persatuan Pandu Puteri Malaysia, Bendahari KUIM (Universiti Sains Islam Malaysia), The Rotary Club of USJ, Rumah Amal Cheshire Selangor, Pride Foundation - Donation to the Pride Cancer Society, Yayasan Tuanku Nur Zahirah – Sponsorship to Songket Heritage Charity Gala and Yayasan Sin Chew – Johor flood victims.

- **Recurrent Related Party Transactions of a Revenue or Trading Nature**

There were no recurrent related party transactions entered into by the Company and its subsidiary companies during the financial year.

# Statement of Internal Control

## Introduction

As stated in the Malaysian Code on Corporate Governance, the Board of Directors should maintain a sound system of internal controls, including the review of its effectiveness in order to safeguard shareholders' investment and Group's assets. Set out below is the Board's Statement of Internal Control in compliance with the Bursa Malaysia Securities Berhad's Listing Requirements.

## Responsibility

The overall responsibility for K & N Kenanga Holdings Berhad's ("Kenanga Holdings") group-wide system of internal controls including the review of its effectiveness lies with the Board of Directors. The Board recognises the importance of maintaining a sound system of internal controls and has instituted internal controls and management information systems to monitor the Group's effectiveness in safeguarding the shareholders' investments and the Group's assets. In addition, the Board also took steps to formalise a Risk Management Framework to identify key significant risks, evaluate the impact and set policies relating to the risk and relevant controls.

The Management is tasked with the responsibility of implementing the Board's policies on risks and controls.

## Risk Management Framework

Both the Board and Management of Kenanga Holdings are committed to implementing an internal control system to manage those risks that could affect the Group's continued growth and financial viability. As such, measures are taken to evaluate changes in the risk profile of the industry and the Group to assist the Board and Management to anticipate and manage potential risks.

Among the key elements of Kenanga Holdings' internal control system including the processes in place to review its adequacy are as follows:-

- An organisation structure which is aligned to business and operational requirements and led by Heads of Departments with accountability in place;
- Integrated business planning and operational budgeting processes driven by commercial objectives;
- Clear definition of authority and responsibilities that has been approved by the Board and subject to continuous updating and review;
- Standard operating manuals which document organisation-wide procedures and controls which are regularly reviewed and updated to ensure alignment, standardisation and comprehensiveness of the procedures;
- Regular training and education given to employees on the importance of corporate governance, risk management and internal controls;
- The Management is responsible for, amongst others:-
  - Reviewing the actual performance against expectations and budget on a quarterly basis;
  - Addressing any internal control issues with the Board/Audit Committee and the Internal Audit Department; and
  - Addressing any matters arising from the meeting of the Board/Audit Committee and ensuring that Management acts upon those matters accordingly.

# Statement of Internal Control (continued)

## **Risk Management Framework (Continued)**

- Risk Management Committee has also been set up in May 2006 at the major banking subsidiary, Kenanga Investment Bank Berhad, to manage different types of risks common to financial institutions which include credit risk, market risk, operational risk and liquidity risk. Amongst other committees set up at the same time to manage specific risks are the Asset and Liability Committee, the Credit and Risk Assessment Committee and the Information Technology Steering Committee;
- The Internal Audit Department reports to the Audit Committee on a quarterly basis, performs systematic reviews of key processes in relation to high-risk areas and assesses the effectiveness of the internal controls and compliance;
- The Audit Committee reviews quarterly, on behalf of the Board, with Management, those issues highlighted in the reports by internal and external auditors, and audits conducted by regulators such as Bank Negara Malaysia, the Securities Commission and Bursa Malaysia with actions taken to address them. If required, the internal auditors would also assist the Committee in reviewing periodically the measures taken to address the Committee's concerns on any internal control system;
- The Board of Directors, in its quarterly meetings, reviews operational and financial performance of the Group and would also look at any significant internal controls issues highlighted by the Audit Committee, Internal Audit Department and the external auditors to seek resolution to those matters; and
- Senior Management has continued the initiatives to formalise a risk management framework in the organisation, with the following objectives:-
  - To systemise a continuous process for identifying, evaluating and managing significant risks faced by the Group; and
  - To inculcate an organisation-wide culture of risk awareness and risk management.

## **Design of Internal Control System**

The Board of Directors and Senior Management consistently endeavour to maintain an adequate system of internal controls designed to manage risks rather than eliminate them. As such, it is recognised that the system of internal controls can only provide reasonable assurance and not absolute assurance against the occurrence of any material misstatement or loss.

The Board confirms that the system of internal controls, with the key elements highlighted above, was in place during the financial year. This system is subject to regular review by the Board.

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# Directors' Report

The directors present their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2007.

## Principal Activities

The principal activities of the Company are that of investment holding and provision of management services. The principal activities of subsidiary companies are set out in Note 13 to the financial statements.

There have been no significant changes in the nature of these activities during the year except for the commencement of the investment banking activities by Kenanga Investment Bank Berhad.

## Results

	Group (RM'000)	Company (RM'000)
Profit after tax from continuing operations	105,774	12,525
Profit for the year from discontinued operations	38,210	-
Share of loss in associated companies	(200)	-
<b>Profit for the year</b>	<b>143,784</b>	<b>12,525</b>
Attributable to:		
Equity holders of the Company	141,113	12,525
Minority interests	2,671	-
<b>Profit for the year</b>	<b>143,784</b>	<b>12,525</b>

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the changes in accounting policies due to the adoption of the Revised Guidelines on Financial Reporting for Licensed Institutions issued by Bank Negara Malaysia (BNM/GP8) which has resulted in an increase in the Group's and the Company's profit for the year by approximately RM4,662,000 and RM5,514,000 respectively.

## Dividends

During the year, the Company paid a first and final dividend of 2% less tax at 27%, amounting to RM8,931,689 in respect of the previous financial year.

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 December 2007, of 5% less 26% taxation on 611,759,499 ordinary shares, amounting to a dividend payable of RM22,635,101 (3.7 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2008.

## Directors

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

YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail

Encik Abdul Aziz Bin Hashim

Dato' Ramli Ismail

YM Raja Dato' Seri Abdul Aziz Bin Raja Salim

Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain

Haji Salleh Bin Abdullah

Mr Kevin How Kow

Mr Charles McLaughlin

Mr Luigi Fortunato Ghirardello

Dato' Richard Alexander John Curtis

## Directors' Interests

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

	Number of Ordinary Shares of RM1 each			
	At 01.01.2007	Acquired	Sold	At 31.12.2007
The Company				
<b>Direct Interest:</b>				
YM Tengku Dato' Paduka Noor				
Zakiah Binti Tengku Ismail	92,969,770	8,000,000	-	100,969,770
Encik Abdul Aziz Bin Hashim	29,753,712	-	-	29,753,712
Dato' Ramli Ismail	76,162,402	-	10,662,000	65,502,402
<b>Deemed Interest:</b>				
YM Tengku Dato' Paduka Noor				
Zakiah Binti Tengku Ismail *	43,500	-	-	43,500
Encik Abdul Aziz Bin Hashim *	26,464,115	-	-	26,464,115
Dato' Ramli Ismail *	3,009,000	-	-	3,009,000

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

None of the other directors who held office at the end of the year had, according to the register required to be kept under Section 134 of the Companies Act 1965, any interest in shares of the Company and its related corporations.

## Directors' Benefits

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

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the Group's financial statements or the fixed salary of a full time employee of the Company as shown in Note 34 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest required to be disclosed by Section 169(8) of the Companies Act 1965, except as disclosed in Note 33 to the financial statements.

# Directors' Report (continued)

## Other Statutory Information

- (a) Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the consolidated financial statements misleading.
- (d) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (e) At the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the Group or of the Company for the financial year in which this report is made.

## Significant and Subsequent Events

Details of significant events are disclosed in Note 46 to the financial statements.

## 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 on 10 March 2008.

YM TENGKU DATO' PADUKA NOOR  
ZAKIAH BTE TENGKU ISMAIL

RAMLI ISMAIL

# Statement by Directors

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

We, YM TENGKU DATO' PADUKA NOOR ZAKIAH BTE TENGKU ISMAIL and RAMLI ISMAIL, being two of the directors of K & N KENANGA HOLDINGS BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 42 to 129 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 Guidelines so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2007 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors on 10 March 2008.

YM TENGKU DATO' PADUKA NOOR  
ZAKIAH BTE TENGKU ISMAIL

RAMLI ISMAIL

# Statutory Declaration

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

I, RAMLI ISMAIL, being the director primarily responsible for the financial management of K & N KENANGA HOLDINGS BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 42 to 129 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 RAMLI ISMAIL at  
Kuala Lumpur in Wilayah Persekutuan  
on 10 March 2008

RAMLI ISMAIL

Before me,

M. Radhamani, PPN  
Commissioner for Oaths

# Report of The Auditors

## Auditors' Report to the Members of K & N Kenanga Holdings Berhad (Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 42 to 129. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly 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 Guidelines so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31 December 2007 and of the results and cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act 1965 to be dealt with in the financial statements;
- (b) and the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries for which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Companies Act, 1965.

Ernst & Young  
AF: 0039  
Chartered Accountants

Wong Lai Wah  
No. 1956/04/09(J)  
Partner

Kuala Lumpur, Malaysia  
10 March 2008

# Balance Sheets

## Balance Sheets for the Year Ended 31 December 2007

	Note	Group		Company	
		2007	2006	2007	2006
		RM '000	RM '000	RM '000	RM '000
			(Restated)		(Restated)
<b>Assets</b>					
Cash and short-term funds	3	<b>609,143</b>	306,201	<b>40,707</b>	34,302
Deposits and placements with financial institutions	4	<b>18,847</b>	2,000	-	-
Securities purchased under resale agreements	5	-	118,706	-	-
Securities held-for-trading	6	<b>218,853</b>	24,907	<b>34,595</b>	16,535
Securities available-for-sale	7	<b>471,173</b>	34,954	-	-
Securities held-to-maturity	8	<b>1,490</b>	1,490	-	-
Loans, advances and financing	9	<b>216,080</b>	56,783	-	-
Balances due from clients and brokers	10	<b>660,365</b>	459,438	-	4
Other assets	11	<b>416,211</b>	377,933	<b>14,051</b>	60,810
Statutory deposits with Bank Negara Malaysia	12	<b>10,500</b>	-	-	-
Investments in subsidiaries	13	-	-	<b>619,787</b>	674,833
Investment in associates	14	<b>78,073</b>	-	<b>10,063</b>	-
Property, plant and equipment	15	<b>26,758</b>	25,304	<b>942</b>	81
Assets held for sales	16	-	131,599	-	-
Deferred tax assets	17	<b>3,983</b>	390	-	227
Intangible assets	18	<b>70,106</b>	70,106	-	-
<b>Total Assets</b>		<b>2,801,582</b>	1,609,811	<b>720,145</b>	786,792
<b>Liabilities And Equity</b>					
Deposits from customers	19	<b>387,344</b>	-	-	-
Deposits and placements of banks and other financial institutions	20	<b>473,601</b>	-	-	-
Other liabilities	21	<b>966,438</b>	698,006	<b>56,638</b>	127,871
Subordinated obligations	22	<b>1,384</b>	1,350	-	-
Borrowings	23	<b>104,195</b>	153,747	-	-
Liabilities directly associated with assets held for sales	16	-	4,187	-	-
Deferred tax liabilities	17	<b>1,067</b>	6,156	<b>993</b>	-
<b>Total Liabilities</b>		<b>1,934,029</b>	863,446	<b>57,631</b>	127,871

## Balance Sheets for the Year Ended 31 December 2007 (continued)

	Note	Group		Company	
		2007	2006	2007	2006
		RM '000	RM '000	RM '000	RM '000
			(Restated)		(Restated)
Share capital	24	<b>611,759</b>	611,759	<b>611,759</b>	611,759
Reserves	25	<b>252,075</b>	130,317	<b>50,755</b>	47,162
<b>Equity Attributable to Equity Holders</b>					
<b>of the Company</b>		<b>863,834</b>	742,076	<b>662,514</b>	658,921
Minority interests		<b>3,719</b>	4,289	-	-
<b>Total Equity</b>		<b>867,553</b>	746,365	<b>662,514</b>	658,921
<b>Total Liabilities and Equity</b>		<b>2,801,582</b>	1,609,811	<b>720,145</b>	786,792
<b>Commitments and Contingencies</b>	38	<b>1,121,557</b>	559,371	-	-

The accompanying notes form an integral part of the financial statements

# Income Statements

## Income Statements for the Year Ended 31 December 2007

	Note	Group		Company	
		2007	2006	2007	2006
		RM '000	RM '000	RM '000	RM '000
			(Restated)		(Restated)
<b>Continuing Operations</b>					
Operating revenue	26	<b>308,372</b>	129,403	<b>23,654</b>	10,643
Interest income	27	<b>73,747</b>	36,670	<b>4,253</b>	5,601
Interest expense	28	<b>(31,656)</b>	(2,289)	<b>(2,644)</b>	-
Net interest income		<b>42,091</b>	34,381	<b>1,609</b>	5,601
Other operating income	29	<b>310,025</b>	142,843	<b>33,803</b>	15,972
Net income		<b>352,116</b>	177,224	<b>35,412</b>	21,573
Other operating expenses	30	<b>(245,447)</b>	(136,561)	<b>(13,114)</b>	(4,639)
Operating profit		<b>106,669</b>	40,663	<b>22,298</b>	16,934
Allowance for losses on loans, advances and financing	31	<b>(2,757)</b>	(614)	-	-
Allowances on bad & doubtful accounts on balances due from clients and brokers	32	<b>30,313</b>	5,139	-	-
		<b>134,225</b>	45,188	<b>22,298</b>	16,934
Share of results in associates		<b>(167)</b>	-	-	-
Profit before taxation		<b>134,058</b>	45,188	<b>22,298</b>	16,934
Taxation	35	<b>(28,484)</b>	(9,147)	<b>(9,773)</b>	(3,438)
<b>Profit for the year</b>		<b>105,574</b>	36,041	<b>12,525</b>	13,496
<b>Discontinued Operations</b>					
Profit/(loss) for the period from discontinued operations	16	<b>38,210</b>	(5,806)	-	-
<b>Profit for the year</b>		<b>143,784</b>	30,235	<b>12,525</b>	13,496
Attributable to:-					
Equity holders of the Company		<b>141,113</b>	28,684	<b>12,525</b>	13,496
Minority interests		<b>2,671</b>	1,551	-	-
<b>Profit for the year</b>		<b>143,784</b>	30,235	<b>12,525</b>	13,496
<b>Earnings per share attributable</b>					
<b>to equity holders of the Company (sen)</b>	36				
Basic for profit from continuing operations		<b>16.82</b>	5.64		
Basic for profit/(loss) from discontinued operations		<b>6.25</b>	(0.95)		
Basic for profit for the year		<b>23.07</b>	4.69		
Diluted for profit for the year		<b>23.07</b>	4.69		

The accompanying notes form an integral part of the financial statements

# Statement of Changes in Equity

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2007

	Attributable to Equity Holders of the Company											
	Non-distributable					Distributable			Total	Minority Interests	Total Equity	
	Share Capital (Note 24)	Capital Reserve (Note 25)	Share Premium (Note 25)	Exchange Reserve (Note 25)	Fair Value Reserve (Note 25)	Statutory Reserve (Note 25)	Retained Profits (Note 25)	RM'000				RM'000
<b>(Group)</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2006</b>	611,759	34,352	75	(51)	-	-	61,611	707,746	2,738	710,484		
Application of GP8 (Note 47 (c))	-	-	-	-	3,014	-	3,801	6,815	-	6,815		
<b>At 1 January 2006 (restated)</b>	611,759	34,352	75	(51)	3,014	-	65,412	714,561	2,738	717,299		
Foreign exchange differences on consolidation	-	-	-	(540)	-	-	-	(540)	-	(540)		
Effects of unrealised net gain on revaluation of securities available-for-sale	-	-	-	-	5,978	-	-	5,978	-	5,978		
<b>Net expense recognised directly in equity</b>	-	-	-	(540)	5,978	-	-	5,438	-	5,438		
Net profit for the year	-	-	-	-	-	-	28,684	28,684	1,551	30,235		
<b>Total recognised income and expense for the year</b>	-	-	-	(540)	5,978	-	28,684	34,122	1,551	35,673		
Dividends (Note 37)	-	-	-	-	-	-	(6,607)	(6,607)	-	(6,607)		
<b>At 31 December 2006 (restated)</b>	611,759	34,352	75	(591)	8,992	-	87,489	742,076	4,289	746,365		

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

# Statement of Changes in Equity (continued)

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2007 (continued)

	Attributable to Equity Holders of the Company									
	Non-distributable				Distributable					
	Share Capital (Note 24)	Capital Reserve (Note 25)	Share Premium (Note 25)	Exchange Reserve (Note 25)	Fair Value Reserve (Note 25)	Statutory Reserve (Note 25)	Retained Profits (Note 25)	Total	Minority Interests	Total Equity
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2007</b>	611,759	34,352	75	(591)	-	-	83,247	728,842	4,289	733,131
Application of GP8 (Note 47 (c))	-	-	-	-	8,992	-	4,242	13,234	-	13,234
<b>At 1 January 2007 (restated)</b>	611,759	34,352	75	(591)	8,992	-	87,489	742,076	4,289	746,365
Foreign exchange differences on consolidation	-	-	-	(735)	-	-	-	(735)	-	(735)
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	-	(9,688)	-	-	(9,688)	-	(9,688)
<b>Net expense recognised directly in equity</b>	-	-	-	(735)	(9,688)	-	-	(10,423)	-	(10,423)
Net profit for the year	-	-	-	-	-	-	141,113	141,113	2,671	143,784
<b>Total recognised income and expense for the year</b>	-	-	-	(735)	(9,688)	-	141,113	130,690	2,671	133,361
Retained profits capitalised for bonus issue of shares in subsidiary	-	6,600	-	-	-	-	(6,600)	-	-	-
Transfer to statutory reserve	-	-	-	-	-	45,717	(45,717)	-	-	-
Dividends (Note 37)	-	-	-	-	-	-	(8,932)	(8,932)	(3,241)	(12,173)
<b>At 31 December 2007</b>	611,759	40,952	75	(1,326)	(696)	45,717	167,353	863,834	3,719	867,553

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

# Statement of Changes in Equity (continued)

## Statement of Changes in Equity for the Year Ended 31 December 2007

(Company)	Note	Non-distributable			Distributable	Equity
		Share Capital (Note 24)	Capital Reserve (Note 25)	Share Premium (Note 25)	Retained Profits (Note 25)	
		RM'000	RM'000	RM'000	RM'000	
<b>At 1 January 2006</b>		611,759	128,817	75	8,726	749,377
Application of GP8	47(c)	-	-	-	1,516	1,516
<b>At 1 January 2006 (restated)</b>		611,759	128,817	75	10,242	750,893
Net profit for the year		-	-	-	13,496	13,496
Dividends paid	37	-	-	-	(6,607)	(6,607)
Application of FRS 127	47(b)	-	(98,861)	-	-	(98,861)
<b>At 31 December 2006 (restated)</b>		611,759	29,956	75	17,131	658,921
<b>At 1 January 2007</b>		611,759	29,956	75	15,289	657,079
Application of GP8	47(c)	-	-	-	1,842	1,842
<b>At 1 January 2007 (restated)</b>		611,759	29,956	75	17,131	658,921
Net profit for the year		-	-	-	12,525	12,525
Transfer from capital reserve to retained profits		-	(29,956)	-	29,956	-
Dividends paid	37	-	-	-	(8,932)	(8,932)
<b>At 31 December 2007</b>		611,759	-	75	50,680	662,514

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

# Consolidated Cash Flow Statement

## Consolidated Cash Flow Statement for the Year Ended 31 December 2007

	Group	
	2007	2006
	RM '000	RM '000
		(Restated)
<b>Cash Flows from Operating Activities</b>		
Profit before taxation		
Continuing operations	<b>134,058</b>	45,188
Discontinued operations	<b>36,391</b>	(4,759)
Adjustments for:		
Depreciation:		
Continuing operations	<b>6,425</b>	4,404
Discontinued operations	-	3,602
Share of loss in associates	<b>167</b>	-
Interest income	<b>(62,196)</b>	(35,993)
Interest on securities held-for-trading	<b>(3,762)</b>	(571)
Interest on securities available-for-sale	<b>(7,789)</b>	(106)
Dividend income	<b>(1,140)</b>	(2,471)
Gain on disposal of subsidiary company	<b>(233)</b>	-
(Writeback)/Provision for diminution in value of investments	<b>(114)</b>	1,744
Gain arising from sale of securities	<b>(5,580)</b>	(5,696)
Investments written off	-	250
Bad debts recovered - balances due from clients and brokers	<b>(33,365)</b>	(345)
Bad debts recovered - loans, advances and financing	<b>(536)</b>	(40)
Bad debts written off - balances due from clients and brokers	<b>145</b>	219
Bad debts written off - loans, advances and financing	<b>2</b>	1
Allowances for bad and doubtful debts and financing - balances due from clients and brokers	<b>2,287</b>	(5,013)
Allowances for bad and doubtful debts and financing - loans, advances and financing	<b>3,291</b>	531
Hire purchase interest	<b>17</b>	28
Unrealised gains on revaluation of securities held-for-trading	<b>(4,662)</b>	(1,357)
Property, plant and equipment written off	<b>339</b>	1,345
Capital gain arising from receipt of shares in Bursa Malaysia Securities Berhad	<b>(18,839)</b>	-
Amortisation of premium less accretion of discount	<b>58</b>	3
Provision for other debts—balances due from clients and brokers	-	122
Provision for other debts—loans, advance and financing	<b>620</b>	-
Gain on disposal of property, plant and equipment	<b>(37,901)</b>	(95)
Operating profit before working capital changes carried forward	<b>7,741</b>	991

## Consolidated Cash Flow Statement for the Year Ended 31 December 2007 (continued)

	Group	
	2007	2006
	RM '000	RM '000
		(Restated)
<b>Cash Flows from Operating Activities (continued)</b>		
Operating profit before working capital changes brought forward	7,741	991
Changes in working capital:		
Inventories	-	98
Receivables	(303,680)	(230,793)
Trust deposits and accounts with licensed banks and financial institutions	(79,623)	(79,175)
Amount held in trust	-	45,143
Payables	1,040,750	280,606
Cash generated from operations	665,188	16,870
Net tax paid	(22,155)	(8,575)
Dividend received	863	1,632
Interest received	65,647	36,049
<b>Net cash generated from operating activities</b>	<b>709,543</b>	<b>45,976</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of property, plant and equipment	(7,327)	(11,855)
Acquisition of shares in associated companies	(78,498)	-
Acquisition of investments	(535,858)	(172,807)
Contribution to Bank Negara Malaysia for a licence to carry on merchant banking business	-	(52,500)
Interest on securities held-for-trading and available-for-sale	8,100	621
Proceeds from sale of investments	40,106	39,618
Proceeds from sale of subsidiary company	403	-
Proceeds from sale of property, plant and equipment	165,615	453
<b>Net cash used in investing activities</b>	<b>(407,459)</b>	<b>(196,470)</b>

# Consolidated Cash Flow Statement (continued)

## Consolidated Cash Flow Statement for the Year Ended 31 December 2007 (continued)

	Note	Group	
		2007	2006
		RM '000	RM '000 (Restated)
<b>Cash Flows from Financing Activities</b>			
Interest paid		(4,025)	(4,181)
Payment to minority interest for dividends		(3,241)	-
Net (repayment)/drawdown of borrowings		(45,526)	24,205
Repayment of hire purchase and finance lease		(194)	(165)
Dividends paid		(8,932)	(6,607)
<b>Net cash (used in)/generated from financing activities</b>		<b>(61,918)</b>	13,252
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>240,166</b>	(137,242)
<b>Cash and Cash Equivalents at Beginning of Year</b>		<b>106,874</b>	244,116
<b>Cash and Cash Equivalents at End of Year</b>		<b>347,040</b>	106,874
<b>Cash and cash equivalents at end of year comprise:</b>			
Cash and short term funds	3	347,040	101,821
Deposits and placements with financial institutions	4	-	2,000
		<b>347,040</b>	103,821
Cash and bank balances classified as asset held-for-sale	16	-	3,053
		<b>347,040</b>	106,874

The accompanying notes form an integral part of the financial statements

# Cash Flow Statement

## Cash Flow Statement for the Year Ended 31 December 2007

	Company	
	2007	2006
	RM '000	RM '000
		(Restated)
<b>Cash Flows From Operating Activities</b>		
Profit before taxation	22,298	16,934
Adjustments for:		
Depreciation	87	24
Interest expenses	2,644	-
Interest income	(3,770)	(5,091)
Interest on securities held-for-trading	(483)	(510)
Dividend income	(23,350)	(9,819)
Unrealised gain on revaluation of securities held-for-trading	(5,514)	(1,930)
Impairment of investment in subsidiaries	1,000	
Inter-company balances written off	4,530	
Waiver of intercompany balances	(1,303)	
Gain arising from sale of securities	(3,313)	(3,399)
Operating loss before working capital changes	(7,174)	(3,791)
Changes in working capital:		
Receivables	(71)	54
Intercompany	146,493	(7,203)
Payables	1,253	802
Cash generated from/(used in) operations	140,501	(10,138)
Tax paid	(795)	(1,402)
Dividends received	17,066	7,099
Interest received	3,770	5,091
<b>Net cash generated from operating activities</b>	<b>160,542</b>	<b>650</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from disposal of property, plant and equipment	7	24
Investment in subsidiary companies	(122,800)	-
Investment in associate companies	(10,063)	-
Interest on securities held-for-trading	483	510
Acquisition of investments	(42,990)	(21,564)
Purchase of property, plant and equipment	(955)	(17)
Proceeds from sale of investments	33,757	20,571
<b>Net cash used in investing activities</b>	<b>(142,561)</b>	<b>(476)</b>

# Cash Flow Statement (continued)

## Cash Flow Statement for the Year Ended 31 December 2007 (continued)

	Company	
	2007	2006
	RM '000	RM '000
		(Restated)
Note		
<b>Cash Flows From Financing Activity</b>		
Drawdown of borrowings	<b>120,000</b>	-
Repayment of borrowings	<b>(120,000)</b>	-
Dividends paid	<b>(8,932)</b>	(6,607)
Interest paid	<b>(2,644)</b>	-
<b>Net cash used in financing activity</b>	<b>(11,576)</b>	(6,607)
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>	<b>6,405</b>	(6,433)
<b>Cash And Cash Equivalents At Beginning Of Year</b>	<b>34,302</b>	40,735
<b>Cash And Cash Equivalents At End Of Year</b>	<b>40,707</b>	34,302
<b>Cash and cash equivalents at end of year comprise:</b>		
Cash and short term funds	<b>3</b>	<b>40,707</b>

The accompanying notes form an integral part of the financial statements

# Notes to the Financial Statements - 31 December 2007

## 1. Corporate Information

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

The principal activities of the Company are investment holding and provision of management services. The principal activities of subsidiary companies are set out in Note 13 to the financial statements. There have been no significant changes in the principal activities during the financial year except for the commencement of the investment banking activities by Kenanga Investment Bank Berhad.

The financial statements were authorised for issue by the board of directors in accordance with a resolution of the directors on 10 March 2008.

## 2. Significant Accounting Policies

### 2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards (FRSs) in Malaysia as modified by Bank Negara Malaysia Guidelines. The Group and the Company had adopted the new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2007 as described fully in Note 2.2.

Certain comparative in the financial statements have been restated arising from the application of the Revised Guidelines on Financial Reporting for Licensed Institutions issued by Bank Negara Malaysia (BNM/GP8) and the new and revised Financial Reporting Standards (FRSs) and the additional adjustments on FRS 127 and as well as to conform with current financial year's presentation as described in Note 47.

The financial statements of the Group and of the Company have also been prepared on a historical basis except for the following assets which are stated at fair value: securities held-for-trading and securities available-for-sale.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

### 2.2 New Financial Reporting Standards (FRSs), amendments to published standards and interpretations.

The Group and the Company have also adopted the following revised FRSs:

FRS 117 *Leases*

FRS 124 *Related Party Disclosures*

The adoption of the above revised FRSs gave rise to additional disclosures but did not result in significant changes in accounting policies of the Group and of the Company.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.2 New Financial Reporting Standards (FRSs), amendments to published standards and interpretations (continued)

The following new and revised FRSs which are mandatory for companies with financial periods beginning on or after 1 January 2007 are not relevant to the Group and the Company.

FRS 6 *Exploration for and Evaluation of Mineral Resources*

Amendment to FRS 119<sub>2004</sub> *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*

At the date of authorisation of these financial statements, the following FRSs, amendments to FRSs, and Interpretations were issued but not yet effective and have not been applied by the Group and the Company.

Standard / Interpretation	Effective Date
FRS 139 <i>Financial Instruments: Recognition and Measurement</i>	To be announced
Amendment to FRS 121 <i>The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation</i>	1 July 2007
IC Interpretation 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2 <i>Members' Share in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6 <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7 <i>Applying the Restatement Approach under FRS 129<sub>2004</sub> Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8 <i>Scope of FRS 2 Share-based Payment</i>	1 July 2007
FRS 107 <i>Cash Flow Statements</i>	1 July 2007
FRS 111 <i>Construction Contracts</i>	1 July 2007
FRS 112 <i>Income Taxes</i>	1 July 2007
FRS 118 <i>Revenue</i>	1 July 2007
FRS 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 July 2007
FRS 134 <i>Interim Financial Reporting</i>	1 July 2007
FRS 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007

In the previous financial year, MASB has issued FRS 139, Financial Instruments: Recognition and Measurement but has yet to announce the effective date of this standard.

The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not required to be disclosed by virtue of exemptions provided under paragraph 103AB of FRS 139.

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements.

## 2.3 Summary of Significant Accounting Policies

### (a) Subsidiaries and Basis of Consolidation

#### (i) Subsidiaries

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

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

#### (ii) Basis of Consolidation

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

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

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

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (b) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investments in associates is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associates. The Group's share of the net profit or loss of the associates are recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates. The associates are equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associates.

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

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

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

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between the sales proceeds and their carrying amounts is included in the income statement.

## (c) Intangible Assets

### (i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### (ii) Merchant Banking Licence

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

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

## (d) Provisions for Liabilities

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

## (e) Property, Plant and Equipment and Depreciation

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

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (e) Property, Plant and Equipment and Depreciation (continued)

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

Renovation	10%
Building	2%
Plant and machinery	6.66% to 33.33%
Furniture and fittings	10% to 20%
Motor vehicles	16% to 25%
Office equipment	10% to 33.33%
Research library	20%

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

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

#### (f) Impairment of Financial Assets

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

##### (i) Securities held-to-maturity

For securities carried at amortised cost in which there is objective evidence of impairment, impairment loss is measured as the difference between the securities' carrying amount and the present value of the estimated future cash flows discounted at the securities' original effective interest rate. The amount of the impairment loss is recognised in the income statement.

Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the securities' carrying amount does not exceed its amortised cost if no impairment had been recognised. The reversal is recognised in the income statement.

## **(f) Impairment of Financial Assets (continued)**

### **(i) Securities held-to-maturity (continued)**

For securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition.

### **(ii) Securities available-for-sale**

The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement. For securities available-for-sale in which there is objective evidence of impairment, the cumulative impairment loss that had been recognised directly in equity shall be transferred from equity to the income statement, even though the securities have not been derecognised.

Impairment losses on investment in equity instruments classified as available-for-sale recognised are not reversed subsequent to its recognition. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the income statement if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.

## **(g) Impairment of Non-financial Assets**

### **(i) Intangible Assets**

Intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill from business combinations or intangible assets are allocated to cash-generating units ("CGU") which are expected to benefit from the synergies of the business combination or the intangible asset.

The recoverable amount is determined for each CGU based on its value in use. In assessing value in use, the estimated future cash flows 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. An impairment loss is recognised in the income statement when the carrying amount of the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of goodwill or intangible assets allocated to the CGU and then to the other assets of the CGU on a pro-rata basis.

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss for intangible assets is reversed if and only if there has been a change in the estimates used to determine the intangible asset's recoverable amount since the last impairment loss was recognised and such reversal is through the income statement to the extent that the intangible asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (g) Impairment of Non-financial Assets (continued)

##### (ii) Other Assets

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

##### (h) Leases

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

##### (i) Finance leases

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(e).

##### (ii) Operating leases

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

### **(i) Income Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the income statement for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest is the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of the combination.

### **(j) Contingent Liabilities and Contingent Assets**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

### **(k) Revenue Recognition**

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

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

- (i) Interest income on overdrafts, housing loans and term loans is accounted for on accrual basis by reference to rest periods as stipulated in the loan agreements, which are either monthly or daily.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (k) Revenue Recognition (continued)

Where an account is classified as non-performing, interest accrued and recognised as income prior to the date the loan is classified as non-performing is reversed out of interest income and set-off against the accrued interest receivable account in the balance sheet. Thereafter, interest on the non-performing loans shall be recognised as income on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for more than three (3) months from the first day of default or after maturity date.

The policy on interest recognition on non-performing loans is in conformity with the revised Guidelines on Financial Reporting for Licensed Institutions ("BNM/GP8") issued by Bank Negara Malaysia on 5 October 2004.

(ii) Rental income is recognised on accrual basis.

(iii) Fees.

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

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

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

Brokerage fees are recognised on contract date.

(iv) Other income.

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

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

All other income items are recognised on an accrual basis.

#### (l) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group and the Company have become parties to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

## **(l) Financial Instruments (continued)**

The accounting policies for financial instruments recognised on the balance sheet other than the instruments disclosed below, are disclosed in the individual policy statements associated with each item.

### **(i) Cash and Cash Equivalents**

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

### **(ii) Equity Instruments**

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

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

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

### **(iii) Subordinated obligations**

The interest-bearing instruments are recognised as liability and are recorded at face value. Interest expense are accrued based on the effective interest rate method.

### **(iv) Other Assets**

Other receivables are carried at anticipated realisable values. Bad debts are written-off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

### **(v) Liabilities**

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values. Other liabilities are stated at fair value which is the consideration to be paid in the future for goods and services received.

### **(vi) Allowance for Bad and Doubtful Debts and Financing**

Loans, advances and financing are stated at cost less any allowance for bad and doubtful debts and financing.

Specific allowance for bad and doubtful debts and financing are made with regard to specific risks and relate to those loans, advances and financing that have been individually reviewed and specifically identified as bad and doubtful debts.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (I) Financial Instruments (continued)

##### (vi) Allowance for Bad and Doubtful Debts and Financing (continued)

A general allowance based on a percentage of total outstanding loans (including unearned interest), net of specific allowance for bad and doubtful debts, is maintained by the Group and the Company against risks which are not identified.

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

The allowance for non-performing loans and advances are computed in compliance with the Guidelines on the Suspension of Interest on Non-Performing Loans and Provision for Bad and Doubtful Debts issued by BNM (BNM/GP3).

The change in the allowance estimate has resulted an additional general allowance for bad and doubtful debts and financing of RM1,523,687 in the current year.

##### (vii) Balances due from clients and brokers

Balances due from clients and brokers are recognised on contract date and carried out original invoice amounts less an allowance for any uncollectible amounts.

In accordance with the Rules of Bursa Malaysia Securities Berhad, specific provisions are made for irrecoverable contra losses, overdue outstanding positions and margin accounts deficits, after taking into consideration the realisable value of collateral and a general provision on outstanding balances due from clients and brokers, net of specific provision made and interest-in-suspense.

Interest income on these accounts are suspended when they are considered non-performing in accordance with the Rules of Bursa Malaysia Securities Berhad and are only recognised upon receipt until all arrears have been paid.

##### (viii) Money lending

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

Specific allowance for bad and doubtful debts and financing are made with regard to specific risks and relate to those loans, advances and financing that have been individually reviewed and specifically identified as bad and doubtful debts.

A general allowance based on a percentage of total outstanding loans (including unearned interest), net of specific allowance for bad and doubtful debts, is maintained against risks which are not identified.

## **(l) Financial Instruments (continued)**

### **(ix) Repurchase Agreements**

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

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

### **(x) Securities**

The holdings of securities portfolio of the Group and of the Company are recognised based on the following categories and consequently their valuation methods:-

#### **(1) Securities held-for-trading**

Securities are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or it is part of a portion of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities held-for-trading are stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statement.

#### **(2) Securities held-to-maturity**

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group and the Company have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

Any sale or reclassification of more than an insignificant amount of securities held-to-maturity not close to their maturity would result in the reclassification of all securities held-to-maturity to securities available-for-sale, and prevent the Bank and the Group from classifying the similar class of securities as securities held-to-maturity for the current and following two (2) financial years.

#### **(3) Securities available-for-sale**

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at amortised cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (m) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in income statement in the period in which they are incurred. Interest expense and attributable profit (on activities relating to Islamic banking business) on deposits and borrowings of the investment bank and of the Group are recognised on an accrual basis.

#### (n) Employee Benefits

##### (i) Short Term Benefits

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

##### (ii) Defined Contribution Plans

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

#### (o) Foreign Currencies

##### (i) Functional and Presentation Currency

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

## (o) Foreign Currencies (continued)

### (ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in income statement for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in income statement for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in income statement in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

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.

### (iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.3 Summary of Significant Accounting Policies (continued)

#### (p) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in income statement.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

### 2.4 Judgements, Estimates and Assumptions Made in Applying Accounting Policies

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

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

#### (a) Critical Judgements

In December 2007, the Board of Directors resolved that the following subsidiaries were to waive the amounts owing by the Company as follows:-

Subsidiaries	RM'000
SSSB Management Services Sdn Bhd	177,878
Sarawak Securities Futures Sdn Bhd	4,203
PSSB Corporate Services Sdn Bhd	125,732
	307,813

### (a) Critical Judgements (continued)

The above indebtedness between the Company and these subsidiaries arose substantially out of the consideration payable by the Company upon the acquisitions of the stock broking businesses of these subsidiaries in 2000. These stock broking businesses were subsequently transferred to another subsidiary company, Kenanga Investment Bank Berhad.

The above amounts waived have been accounted for in the Company's financial statements for the current year as a deduction against the costs of investment in these subsidiaries. This accounting treatment has been adopted to reflect the waivers of the amounts mentioned above as residual equity transactions between the Company and these subsidiaries as it is the intention of the Company to put these subsidiaries into liquidation in the near future.

In addition to the above, the remaining cost of investments in SSSB Management Services Sdn Bhd and Sarawak Securities Futures Sdn Bhd after the deduction of the amounts waived totaling RM98.861 million have been set-off against capital reserve and are accounted for by way of a prior year adjustment. The capital reserve amounting to RM128.816 million arose in the previous year upon adoption of FRS 127 which became effective for the financial periods commencing 1 January 2006 to restate the cost of investments in these subsidiaries to their original cost being the fair values of the consideration given at the time of acquisitions. The acquisitions of these subsidiaries were originally accounted for under the merger method where the nominal value of shares issued by the Company in consideration for the acquisitions were taken as the deemed cost of investments.

### (b) Key Sources of Estimation Uncertainty

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

#### (i) Impairment of goodwill and other intangible assets

The Group determines whether goodwill and other intangible asset are impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill and other intangible asset are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More detailed disclosures on the assessment of impairment of goodwill and other intangible asset are disclosed in Note 18.

#### (ii) Fair value estimation for securities held-for-trading (Note 6) and securities available-for-sale (Note 7)

- the fair value of securities that are not traded in active market are determined using valuation techniques based on assumptions of market conditions existing at the balance date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

# Notes to the Financial Statements (continued)

## 2. Significant Accounting Policies (continued)

### 2.4 Judgements, Estimates and Assumptions Made in Applying Accounting Policies (continued)

#### (b) Key Sources of Estimation Uncertainty (continued)

(iii) Deferred tax assets (Note 17) - deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

## 3. Cash and Short-term Funds

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Cash and balances with banks and other financial institutions	<b>470,063</b>	78,924	<b>1,338</b>	838
Money at call and deposit placements maturing within one month	<b>139,080</b>	227,277	<b>39,369</b>	33,464
	<b>609,143</b>	306,201	<b>40,707</b>	34,302
Included in cash and short term funds are:				
Monies and short-term deposits held in trust on behalf of dealer's representatives and clients	<b>262,103</b>	204,380	-	-
Monies and short-term deposits not in trust	<b>347,040</b>	101,821	<b>40,707</b>	34,302
	<b>609,143</b>	306,201	<b>40,707</b>	34,302

The weighted average interest rates as at the balance sheet date were as follows:

	Weighted average interest rate	
	(% per annum)	
	2007	2006
Licensed financial institutions	<b>3.50</b>	3.50
Licensed banks	<b>3.40</b>	3.30

#### 4. Deposits and Placements with Financial Institutions

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Trust deposits with licensed banks	14,847	-	-	-
Trust deposits with other financial institutions	4,000	-	-	-
Non-trust deposits with licensed banks	-	2,000	-	-
	18,847	2,000	-	-

The above are deposits held on behalf of dealers' representatives and clients (2006: RM Nil).

#### 5. Securities Purchased Under Resale Agreements

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Licensed banks	-	118,706	-	-

#### 6. Securities Held-for-trading

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>At fair value</b>				
<u>Quoted securities:-</u>				
Shares, Warrants, Trust Units and Loan Stocks				
in Malaysia	59,111	24,907	34,595	16,535
<u>Unquoted securities:-</u>				
Private and Islamic Debt Securities in Malaysia	159,741	-	-	-
Foreign Private Debt Securities	1	-	-	-
	159,742	-	-	-
	218,853	24,907	34,595	16,535

## Notes to the Financial Statements (continued)

## 7. Securities Available-for-sale

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>At fair value</b>				
<u>Money Market Instruments:-</u>				
Malaysian Government Securities	5,015	-	-	-
Islamic Cagamas Bonds	15,021	-	-	-
Cagamas Bonds	69,916	-	-	-
Malaysian Government Investment Issues	4,947	-	-	-
Negotiable Instruments of Deposits	80,002	-	-	-
	<b>174,901</b>	-	-	-
<u>Quoted securities:-</u>				
Shares, Warrants, Trust Units and Loan Stocks in Malaysia	11,246	17,934	-	-
<u>Unquoted securities:-</u>				
Shares, trust units and loan stocks in Malaysia	2,103	933	-	-
Private and Islamic Debt Securities in Malaysia	282,923	15,034	-	-
Others	3,100	3,100	-	-
	<b>288,126</b>	19,067	-	-
Accumulated impairment losses	(3,100)	(2,047)	-	-
	<b>285,026</b>	17,020	-	-
	<b>471,173</b>	34,954	-	-

## 8. Securities Held-to-maturity

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>At Amortised Cost</b>				
<u>Unquoted securities:</u>				
Others	1,490	1,490	-	-

## 9. Loans, Advances and Financing

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Term loans				
- Bridging Loans	101,579	580	-	-
Others	118,095	57,090	-	-
	219,674	57,670	-	-
Unearned interest and income	(1)	(51)	-	-
Gross loans, advances and financing	219,673	57,619	-	-
Allowances for bad and doubtful debts and financing				
- specific	(302)	(836)	-	-
- general	(3,291)	-	-	-
Net loans, advances and financing	216,080	56,783	-	-
<b>(i) By type of customer</b>				
Domestic business enterprise				
- Small and medium enterprise	852	580	-	-
- Others	186,005	8,102	-	-
Individuals	32,817	48,988	-	-
	219,674	57,670	-	-
<b>(ii) By interest/ profit rate sensitivity</b>				
Fixed rate				
- Other fixed rate loans/financing	-	580	-	-
Variable rate				
- Cost plus	219,674	57,090	-	-
	219,674	57,670	-	-
<b>(iii) Total loans by economic sectors</b>				
Domestic operations:				
Purchase of securities	118,095	57,090	-	-
Purchase of transport vehicles	-	580	-	-
Construction	56,403	-	-	-
Manufacturing	45,176	-	-	-
	219,674	57,670	-	-
<b>(iv) Non-performing loans by economic purpose</b>				
Purchase of securities	302	305	-	-
Purchase of transport vehicles	-	531	-	-
	302	836	-	-
<b>(v) Movement in non-performing loans, advances and financing ("NPL") are as follows</b>				
At beginning of the year	836	345	-	-
Non-performing during the year	2	531	-	-
Recovered (Note 31)	(536)	(40)	-	-
At end of the year	302	836	-	-
Net non-performing loans, advances and financing	302	836	-	-
Net NPL as % of gross loans, advances and financing less specific allowances	0.14%	1.45%	-	-

## Notes to the Financial Statements (continued)

## 9. Loans, Advances and Financing (continued)

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>(vi) Movement in specific allowance or bad and doubtful debts (and financing) accounts are as follows</b>				
<u>Specific Allowance</u>				
At beginning of the year	836	345	-	-
Allowance made during the year	2	531	-	-
Amount written back in respect of recoveries	(536)	(40)	-	-
At end of the year	302	836	-	-
<b>(vii) Movement in general allowance for bad and doubtful debts (and financing) accounts are as follows</b>				
<u>General Allowance</u>				
Allowance made during the year (Note 31)	3,291	-	-	-
As % of gross loans, advances and financing less specific allowances	1.5%	-	-	-

## 10. Balances Due from Clients and Brokers

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Due from clients and brokers	686,372	483,411	-	4
Less:				
Allowance for bad and doubtful debts	(17,115)	(15,132)	-	-
Interest in suspense	(8,892)	(8,841)	-	-
	660,365	459,438	-	4

## 10. Balances Due from Clients and Brokers (continued)

Additional Financial Information On Stockbroking Subsidiary

(i) Classification of non-performing accounts and related expenses in accordance with the Rules of Bursa Malaysia Securities Berhad are as follows:

	Group	
	2007	2006
	RM '000	RM '000
Classified as doubtful	1,459	3,384
Classified as bad	39,905	33,536
	<b>41,364</b>	<b>36,920</b>

(ii) Movement of provision for bad and doubtful debts

Balance brought forward	15,132	62,189
Add: Provision for bad and doubtful debts	8,089	4,105
Less: Reversal of provision for bad and doubtful debts	(6,081)	(9,704)
Less: Specific provision set off against related trade receivables	(25)	(41,458)
Balance carried forward	<b>17,115</b>	<b>15,132</b>

(iii) Movement of interest in suspense accounts

Balance brought forward	8,841	16,207
Add: Interest suspended during the year	6,855	5,221
Less: Interest written back during the year	(5,283)	(11,643)
Less: Suspended interest set off against related trade receivables	(1,521)	(944)
Balance carried forward	<b>8,892</b>	<b>8,841</b>

## Notes to the Financial Statements (continued)

## 11. Other Assets

	Note	Group		Company	
		2007 RM '000	2006 RM '000 (Restated)	2007 RM '000	2006 RM '000 (Restated)
Assets segregated for customer	(a)	<b>397,079</b>	359,850	-	-
Amounts due from subsidiary Companies	(b)	-	-	<b>13,945</b>	59,908
Tax recoverable		<b>257</b>	7,935	-	831
Interest/Income receivable		<b>3,276</b>	-	-	-
Prepayments and deposits		<b>11,048</b>	5,720	<b>40</b>	14
Other debtors		<b>6,438</b>	6,036	<b>66</b>	57
		<b>418,098</b>	379,541	<b>14,051</b>	60,810
Allowance for doubtful debts		<b>(1,887)</b>	(1,608)	-	-
		<b>416,211</b>	377,933	<b>14,051</b>	60,810

**(a) Assets segregated for customers**

	Group	
	2007 RM '000	2006 RM '000
Margin deposits with Malaysian Derivatives Clearing House	<b>171,005</b>	99,523
Segregated funds with licensed banks	<b>226,074</b>	260,327
	<b>397,079</b>	359,850

Amounts received for customers' margins have been segregated in separate accounts, as required by the Futures Industry Act 1993 and the Rules of Bursa Malaysia Securities Berhad. The corresponding liabilities are included in trade payables.

**(b) Amounts due from subsidiary companies**

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

The amounts due from subsidiary company, Kenanga Capital Sdn Bhd comprise advances granted to the subsidiary which are unsecured, bear interest at 4.5% (2006: 4.5%) per annum and have no fixed terms of repayment.

The other balances are unsecured, non-interest bearing and have no fixed terms of repayment.

## 12. Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposit is maintained with BNM in compliance with Section 37 (1) (c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amount is determined as a set percentage of net eligible liabilities. As at the balance sheet date, the statutory deposit maintained with BNM is RM10,500,000 (2006: RM Nil).

## 13. Investment in Subsidiaries

	Note	Company	
		2007	2006
		RM '000	RM '000
			(Restated)
Unquoted shares, at cost		<b>588,137</b>	590,765
Amount due from a subsidiary company	(a)	-	70,418
Subordinated loan to a subsidiary company	(b)	<b>31,650</b>	13,650
		<b>619,787</b>	674,833

### (a) Amount due from a subsidiary company

Amount due from a subsidiary company comprised a long term loan advanced to a subsidiary company, Kenanga Management & Services Sdn Bhd for the purpose of acquiring a freehold property which property has been classified as assets held for sale for the previous financial year. The loan is unsecured, bears interest at 3.5% per annum and has no fixed term of repayment. During the year, the whole amount was fully repaid.

### (b) Subordinated loan to a subsidiary company

The subordinated loan of RM31.65 million (2006: RM13.65 million) granted to a subsidiary company, Kenanga Deutsche Futures Sdn Bhd ("KDF") is unsecured and bears interest at 5% (2006: 5%) interest per annum. RM13.65 million is due for repayment in January 2010 and RM18 million is due for repayment in May 2012, subject to approvals being obtained from Bursa Malaysia Derivatives Berhad.

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

	Equity Interest		Principal Activities
	2007 (%)	2006 (%)	
Kenanga Management & Services Sdn Bhd	<b>100</b>	100	Property & Facilities Management
Kenanga Deutsche Futures Sdn Bhd	<b>73</b>	73	Futures broker
Kenanga Investment Bank Berhad	<b>100</b>	100	Stockbroking & Investment Banking

## Notes to the Financial Statements (continued)

## 13. Investment in Subsidiaries (continued)

**(b) Subordinated loan to a subsidiary company (continued)**

The subsidiary companies of Kenanga Investment Bank Berhad are:

	Equity Interest		Principal Activities
	2007 (%)	2006 (%)	
Kenanga Nominees (Tempatan) Sdn Bhd	<b>100</b>	100	Provision of Nominees Service
Kenanga Nominees (Asing) Sdn Bhd	<b>100</b>	100	
Kenanga Securities Custodian Sdn Bhd	<b>100</b>	100	
Kenanga Asset Management Sdn Bhd	<b>100</b>	100	Provision of Fund Management Services

The subsidiary companies of Kenanga Asset Management Sdn Bhd are:

KAM Nominees (Tempatan) Sdn Bhd	<b>100</b>	100	Provision of Nominee Services
KAM Nominees (Asing) Sdn Bhd	<b>100</b>	100	
Kenanga Investment Management Sdn Bhd #	-	100	Provision of Fund Management Services
Kenanga Unit Trust Berhad	<b>100</b>	100	

The subsidiary companies of Kenanga Unit Trust Berhad are:

KUT Nominees (Tempatan) Sdn Bhd	<b>100</b>	100	Provision of Nominee Services
KUT Nominees (Asing) Sdn Bhd	<b>100</b>	100	
Kenanga Capital Sdn Bhd	<b>100</b>	100	Money Lending

The subsidiary company of Kenanga Capital Sdn Bhd is:

Capital Investment Bank (Labuan) Limited	<b>100</b>	100	Offshore Investment Banking
Kenanga Private Equity Sdn Bhd	<b>100</b>	100	Venture Capital
Kenanga Smart Access Sdn Bhd	<b>100</b>	100	Commission Agents
Kenanga Business Access Sdn Bhd	<b>100</b>	100	Commission Agents
SSSB Management Services Sdn Bhd	<b>100</b>	100	Dormant

The subsidiary companies of SSSB Management Services Sdn Bhd are:

Utama Capital Sdn Bhd	<b>100</b>	100	Under Voluntary Winding Up
Utama Securities Sdn Bhd	<b>100</b>	100	
PSSB Corporate Services Sdn Bhd	<b>100</b>	100	Dormant

### 13. Investment in Subsidiaries (continued)

The subsidiary company of PSSB Corporate Services Sdn Bhd is:

	Equity Interest		Principal Activities
	2007 (%)	2006 (%)	
Peninsula Research Sdn Bhd	100	100	Dormant
Sarawak Securities Futures Sdn Bhd	100	100	Dormant

# classified as discontinued operations in the previous financial year and the sale was completed during the current financial year.

### 14. Investment in Associates

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
Unquoted shares at cost	78,498	-	10,063	-
Share of post acquisition losses	(200)	-	-	-
Exchange differences	(225)	-	-	-
	<b>78,073</b>	-	<b>10,063</b>	-
Represented by:				
Share of net tangible assets	<b>78,073</b>	-		

Details of the associates are as follows:-

Name	Place of Incorporation	Principal Activities	Effective Equity Interest	
			2007	2006
Mena Financial Group Limited	Dubai	Securities and Investment Banking	20%	-
SMB Kenanga Investment Corporation Ltd	Sri Lanka	Investment banking, corporate finance services and placements	45%	-
Alwasatah Almaliah Co.	Kingdom of Saudi Arabia	Securities and investment banking	29.6%	-

The financial statements of the above associates are coterminous with those of the Group except for Mena Financial Group Limited which closes its accounts on 30 June every year. For the purpose of applying the equity method of accounting, the financial statements of Mena Financial Group Limited for the period ended 31 December 2007 have been used.

## Notes to the Financial Statements (continued)

## 14. Investment in Associates (continued)

The summarised financial information of the associates are as follows:-

	Group	
	2007	2006
	RM '000	RM '000
<b>Assets and Liabilities</b>		
Current assets	18,554	-
Non-current assets	165	-
Total assets	18,719	-
Current liabilities	126	-
Total liabilities	126	-
<b>Results</b>		
Revenue	111	-
Loss for the year	(972)	-

## 15. Property, Plant and Equipment

(Group)	Freehold Land	Capital Work-In-Progress	Building/Renovations	Plant and Machinery	Motor Vehicles	Office Equipment	Furniture and Fittings	Research Library	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>At 31 December 2007</b>									
<b>Cost</b>									
At 1 January 2007	-	152	2,027	-	9,547	56,702	37,856	703	106,987
Additions	-	1,094	1,051	-	1,488	1,743	1,951	-	7,327
Contra to other liabilities	-	-	-	-	999	-	-	-	999
Reclassification	-	(587)	-	-	-	-	587	-	-
Disposals/Write-off	-	-	(8)	-	(2,013)	(11,237)	(1,430)	-	(14,688)
Charged to Income Statement	-	(108)	-	-	-	-	-	-	(108)
At 31 December 2007	-	551	3,070	-	10,021	47,208	38,964	703	100,517
<b>Accumulated depreciation</b>									
At 1 January 2007	-	-	1,178	-	7,252	49,277	23,273	703	81,683
Charge for the year	-	-	215	-	1,091	2,705	2,414	-	6,425
Disposals/Write off	-	-	(3)	-	(1,998)	(11,163)	(1,185)	-	(14,349)
At 31 December 2007	-	-	1,390	-	6,345	40,819	24,502	703	73,759
<b>Net Carrying Amount</b>									
<b>At 31 December 2007</b>	-	551	1,680	-	3,676	6,389	14,462	-	26,758

## 15. Property, Plant and Equipment (continued)

(Group)	Freehold Land RM '000	Capital Work-In-Progress RM '000	Building/Renovations RM '000	Plant and Machinery RM '000	Motor Vehicles RM '000	Office Equipment RM '000	Furniture and Fittings RM '000	Research Library RM '000	Total RM '000
<b>At 31 December 2006</b>									
<b>Cost</b>									
At 1 January 2006	37,349	5,200	71,283	35,985	8,077	55,330	34,887	703	248,814
Additions	-	3,907	604	2,049	1,475	2,895	925	-	11,855
Transfer	-	(1,013)	-	1,013	-	-	-	-	-
Disposals/Write-off	-	(1,344)	(10)	-	(5)	(1,848)	(3,032)	-	(6,239)
Reclassification as assets held for sale (Note 16)	(37,349)	(6,598)	(69,850)	(39,047)	-	325	5,076	-	(147,443)
At 31 December 2006	-	152	2,027	-	9,547	56,702	37,856	703	106,987
<b>Accumulated depreciation</b>									
At 1 January 2006	-	-	9,654	7,134	6,471	50,080	23,744	703	97,786
Charge for the year	-	-	763	2,772	786	1,309	2,376	-	8,006
Disposals/Write off	-	-	(5)	-	(5)	(1,807)	(2,719)	-	(4,536)
Reclassification as assets held for sale (Note 16)	-	-	(9,234)	(9,906)	-	(305)	(128)	-	(19,573)
At 31 December 2006	-	-	1,178	-	7,252	49,277	23,273	703	81,683
<b>Net Carrying Amount</b>									
At 31 December 2006	-	152	849	-	2,295	7,425	14,583	-	25,304

## 15. Property, Plant and Equipment (continued)

(Company)	Furniture and Fittings RM '000	Renovations RM '000	Motor Vehicles RM '000	Office Equipment RM '000	Total RM '000
<b>At 31 December 2007</b>					
<b>Cost</b>					
At 1 January 2007	1	1	97	48	147
Additions	1	11	907	36	955
Disposals	-	-	-	(9)	(9)
At 31 December 2007	2	12	1,004	75	1,093
<b>Accumulated Depreciation</b>					
At 1 January 2007	1	-	40	25	66
Charge for the year (Note 30)	-	1	75	11	87
Disposals	-	-	-	(2)	(2)
At 31 December 2007	1	1	115	34	151
<b>Net Carrying Amount</b>					
At 31 December 2007	1	11	889	41	942
<b>At 31 December 2006</b>					
<b>Cost</b>					
At 1 January 2006	31	8	97	35	171
Additions	1	1	-	15	17
Disposals	(31)	(8)	-	(2)	(41)
At 31 December 2006	1	1	97	48	147
<b>Accumulated Depreciation</b>					
At 1 January 2006	14	2	25	18	59
Charge for the year (Note 30)	1	-	15	8	24
Disposals	(14)	(2)	-	(1)	(17)
At 31 December 2006	1	-	40	25	66
<b>Net Carrying Amount</b>					
At 31 December 2006	-	1	7	23	81

# Notes to the Financial Statements (continued)

## 15. Property, Plant and Equipment (continued)

During the financial year, the Group and the Company acquired property, plant and equipment at aggregate costs of RM7,327,000 (2006: RM11,855,000) and RM955,000 (2006: RM17,000) respectively of which RM Nil (2006: RM41,000) and RM Nil (2006: RM nil) respectively were acquired by means of hire purchase and finance lease arrangements. Net carrying amounts of property, plant and equipment held under hire purchase and finance lease arrangements are as follows:

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
Office equipment and computers	265	68	-	-
Motor vehicles	143	201	-	-
	<b>408</b>	269	-	-

Details of the terms and conditions of the hire purchase and finance lease arrangements are disclosed in Note 21.

## 16. Discontinued Operations and Disposal Groups Classified as Held for Sale

### (a) Disposal of Building

On 17 November 2006, the Group entered into a conditional sale and purchase agreement for the disposal of "Kenanga International" to Injaz AsiaEquity Property Berhad together with the existing and new machinery, equipment (including all generators (save and except for the 350kVa generators belonging to Kenanga), air conditioners, lifts, fixtures and fittings thereon ("the Plant and Machinery") and the rights and benefits of all existing tenancy agreements and all warrants and guarantees pertaining to the property and the plant and equipment for a cash consideration of RM165 million.

The transaction was approved by shareholders in general meeting and the sale was completed during the year. The gain arising on this disposal amounted to RM37.34 million and this gain has been recognised in the income statement for the current year.

### (b) Disposal of subsidiary

On 8 December 2006, the group entered into a Share Purchase Agreement in respect of the disposal of 5,000,000 ordinary shares of RM1.00 each at par, representing 100% of equity interest of Kenanga Investment Management Sdn. Bhd. to Amara Rose Holdings Sdn Bhd for a total cash consideration of RM3,456,350. The sale was completed during the financial year. The gain arising on this disposal amounted to RM233,000 and this gain has been recognised in the income statement for the current year.

## 16. Discontinued Operations and Disposal Groups Classified as Held for Sale (continued)

### (b) Disposal of subsidiary (continued)

The major classes of assets and liabilities classified as held for sale on the consolidated balance sheet as at 31 December 2006 are as follows:

(Group)	2006		
	Disposal of Building	Disposal of Subsidiary	Total
	RM'000	RM'000	RM'000
<b>Assets</b>			
Property, plant and equipment (Note 15)	127,709	161	127,870
Balances due from clients and brokers	285	159	444
Other receivables	-	185	185
Tax recoverable	-	47	47
Short term deposits	-	2,564	2,564
Cash and bank balances	-	489	489
	127,994	3,605	131,599
<b>Liabilities</b>			
Trade payables	3,841	60	3,901
Other payables	-	286	286
	3,841	346	4,187

The net carrying amounts of property, plant and equipment included in the assets held for sale pledged as securities for borrowings (Note 23) are as follows:

	Group	
	2007	2006
	RM '000	RM '000
Freehold land	-	37,349
Buildings	-	60,616
Capital-in-progress	-	272
	-	98,237

## Notes to the Financial Statements (continued)

## 16. Discontinued Operations and Disposal Groups Classified as Held for Sale (continued)

## (b) Disposal of subsidiary (continued)

	Group	
	2007	2006
	RM '000	RM '000
Revenue	<b>3,793</b>	6,728
Cost of sales	-	(306)
Gross profit	<b>3,793</b>	6,422
Other income	<b>38,172</b>	658
Staff Cost	<b>(622)</b>	(1,423)
Depreciation	<b>(58)</b>	(3,602)
Operating expense	<b>(4,191)</b>	(4,992)
Finance cost	<b>(703)</b>	(1,822)
Profit/(loss) before tax of discontinued operations (Note 35)	<b>36,391</b>	(4,759)
Taxation (Note 35)	<b>1,819</b>	(1,047)
Profit/(loss) for the year from discontinued operations	<b>38,210</b>	(5,806)

The following amounts have been included in arriving at profit/(loss) before tax of discontinued operations:

	Group	
	2007	2006
	RM '000	RM '000
Directors' remuneration:		
- other emoluments	-	281
Auditors' remuneration:		
- statutory audits	-	10
Depreciation	<b>58</b>	3,602
Gain on disposal of property, plant and equipment	<b>(37,336)</b>	-

## 17. Deferred Taxation

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
At beginning of year	<b>5,766</b>	2,007	<b>(227)</b>	(134)
Recognised in income statement (Note 35)	<b>(4,861)</b>	1,434	<b>1,220</b>	(93)
Recognised in equity	<b>(3,821)</b>	2,325	-	-
At end of year	<b>(2,916)</b>	5,766	<b>993</b>	(227)
Presented after appropriate offsetting as follows:				
Deferred tax assets	<b>(3,983)</b>	(390)	-	(227)
Deferred tax liabilities	<b>1,067</b>	6,156	<b>993</b>	-
	<b>(2,916)</b>	5,766	<b>993</b>	(227)

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

### Deferred Tax Liabilities of the Group:

	Unrealised gains of securities available for-sale (RM '000)	Unrealised gains of securities held-for trading (RM '000)	Excess of Capital Allowances Over Depreciation (RM '000)	Total (RM '000)
At 1 January 2007	3,394	-	5,008	8,402
Recognised in income statement	-	1,489	(997)	492
Recognised in equity	(3,821)	-	-	(3,821)
<b>At 31 December 2007</b>	<b>(427)</b>	<b>1,489</b>	<b>4,011</b>	<b>5,073</b>
At 1 January 2006				
- as previously reported	-	-	3,081	3,081
- Application of GP8	1,069	-	-	1,069
At 1 January 2006 (restated)	1,069	-	3,081	4,150
Recognised in income statement	-	-	1,927	1,927
Recognised in equity	2,325	-	-	2,325
At 31 December 2006	3,394	-	5,008	8,402

## Notes to the Financial Statements (continued)

## 17. Deferred Taxation (continued)

## Deferred Tax Assets of the Group:

	Provisions (RM '000)	Unabsorbed Capital Allowances (RM '000)	Total (RM '000)
At 1 January 2007	(2,603)	(33)	(2,636)
Recognised in income statement	(5,386)	33	(5,353)
<b>At 31 December 2007</b>	<b>(7,989)</b>	<b>-</b>	<b>(7,989)</b>
At 1 January 2006	(1,762)	(381)	(2,143)
Recognised in income statement	(841)	348	(493)
At 31 December 2006	(2,603)	(33)	(2,636)

## Deferred Tax Liabilities of the Company:

	Unrealised gains of securities held-for-sale and trading (RM '000)	Excess of Capital Allowances Over Depreciation (RM '000)	Total (RM '000)
At 1 January 2007	-	13	13
Recognised in income statement	1,489	22	1,511
<b>At 31 December 2007</b>	<b>1,489</b>	<b>35</b>	<b>1,524</b>
At 1 January 2006	-	12	12
Recognised in income statement	-	1	1
At 31 December 2006	-	13	13

## Deferred Tax Assets of the Company:

	Provisions (RM '000)	Unabsorbed Capital Allowances (RM '000)	Total (RM '000)
At 1 January 2007	(207)	(33)	(240)
Recognised in income statement	(324)	33	(291)
<b>At 31 December 2007</b>	<b>(531)</b>	<b>-</b>	<b>(531)</b>
At 1 January 2006	(121)	(25)	(146)
Recognised in income statement	(86)	(8)	(94)
At 31 December 2006	(207)	(33)	(240)

## 17. Deferred Taxation (continued)

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

	Group	
	2007	2006
	RM '000	RM '000
		(Restated)
Unutilised tax losses carried forward	7,564	7,406
Unutilised capital allowances carried forward	839	1,040
	<b>8,403</b>	<b>8,446</b>

The unutilised tax losses and unabsorbed capital allowances of the Group amounting to RM7,564,000 (2006: RM7,406,000) and RM839,000 (2006: RM1,040,000) respectively are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

## 18. Intangible Assets

	Purchased Goodwill (RM '000)	Merchant Banking Licence (RM '000)	Total (RM '000)
<b>Group</b>			
Cost			
At 1 January 2006	53,373	-	53,373
Accumulated impairment loss at beginning / end of year	(35,767)	-	(35,767)
Contribution for a licence to carry out merchant banking business	-	52,500	52,500
<b>At 31 December 2006 and 31 December 2007</b>	<b>17,606</b>	<b>52,500</b>	<b>70,106</b>

The Group paid RM52,500,000 to Bank Negara Malaysia for a licence to transform a subsidiary company into an investment bank. Subsequent to the full contribution of the said amount, the subsidiary company was issued a merchant banking licence effective 5 January 2007.

### (a) Impairment Test on Intangible Assets

The intangible assets consist of:

- Purchased goodwill which is allocated to one of the Banks's stockbroking operating units. The unit was an acquired firm which was converted to a branch. Purchased goodwill is considered to have an indefinite useful life, which is not amortised and is assessed for impairment annually.
- Merchant Banking Licence represents contribution to Bank Negara Malaysia ("BNM") for a licence to carry on merchant banking business to transform the company from a Universal Broker into an Investment Bank and is considered to have indefinite useful life, which is not amortised and is assessed for impairment annually.

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

# Notes to the Financial Statements (continued)

## 18. Intangible Assets (continued)

### (a) Impairment Test on Intangible Assets (continued)

#### Key assumptions used in value-in-use calculations

For annual impairment testing purposes, the recoverable amount of the CGUs, which are reportable business segments, are determined based on their value-in-use. The value-in-use calculations is determined using cash flow projections based on financial budget and projections approved by management. The key assumptions for the computation of value-in-use are as follows:

Revenue growth rate	4%
Expenses growth rate	5%
Discount rate	5%

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

#### (i) Cash flow projections and Growth rate

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

#### (ii) Discount rate

The discount rate used is based on the Bank's pre-tax weighted average cost of capital plus an appropriate risk premium at the date of assessment of the respective CGU.

Impairment is recognised in the income statement when the carrying amount of a CGU exceeds its recoverable amount. No impairment charge is required for the financial year in respect of the intangible assets accruing to the CGUs.

### (b) Sensitivity to changes in assumptions

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

## 19. Deposits From Customers

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
(i) <b>Analysed by type of deposit</b>				
Fixed/investment deposits	<b>387,344</b>	-	-	-
(ii) <b>Analysed by maturity:</b>				
Due within six months	<b>384,344</b>	-	-	-
Six months to one year	<b>3,000</b>	-	-	-
	<b>387,344</b>	-	-	-
(ii) <b>Analysed by type of customer:</b>				
Government and statutory bodies	<b>96,217</b>	-	-	-
Business enterprises	<b>291,127</b>	-	-	-
	<b>387,344</b>	-	-	-

## 20. Deposits And Placements Of Banks And Other Financial Institutions

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
Non-banking institutions	<b>470,561</b>	-	-	-
Other financial institutions	<b>3,040</b>	-	-	-
	<b>473,601</b>	-	-	-

## Notes to the Financial Statements (continued)

## 21. Other Liabilities

	Note	Group		Company	
		2007	2006	2007	2006
		RM '000	RM '000	RM '000	RM '000
			(Restated)		(Restated)
Trade payables	(a)	<b>666,505</b>	518,678	-	-
Amounts held in trust	(b)	<b>218,225</b>	131,325	-	-
Hire purchase creditors	(c)	<b>246</b>	422	-	-
Provision for taxation		<b>1,795</b>	742	<b>643</b>	-
Interest/Profit payable		<b>7,944</b>	-	-	-
Amounts due to subsidiary companies	(d)	-	-	<b>52,904</b>	126,034
Provision and accruals		<b>70,923</b>	46,166	<b>3,091</b>	1,837
Deposits and other creditors		<b>800</b>	673	-	-
		<b>966,438</b>	698,006	<b>56,638</b>	127,871

**(a) Trade payables**

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from one month to three months apart from balance due to SCANS which settlement is T+3 days.

**(b) Amount held in trust**

	Group	
	2007	2006
	RM '000	RM '000
Amounts held in trust on behalf of:		
- clients	<b>164,640</b>	89,035
- dealers' representatives	<b>53,585</b>	42,290
	<b>218,225</b>	131,325

## 21. Other Liabilities (continued)

### (c) Hire Purchase And Finance Lease Payable

	Group	
	2007	2006
	RM '000	RM '000
<b>Future minimum finance lease payments:</b>		
Not later than 1 year	178	207
Later than 1 year and not later than 2 years	81	231
Later than 2 years and not later than 5 years	-	28
	<b>259</b>	466
Less: Future finance charges	(13)	(44)
<b>Present value of finance lease liabilities</b>	<b>246</b>	422
<b>Analysis of present value of finance lease payments:</b>		
Not later than 1 year	168	200
Later than 1 year and not later than 2 years	78	211
Later than 2 years and not later than 5 years	-	11
	<b>246</b>	422
<b>Analysed as:</b>		
Due within 12 months	168	200
Due after 12 months	78	222
	<b>246</b>	422

The lease liabilities bore interest at the balance sheet date at rates between 2.5% to 4.8% (2006: 2.5% to 4.8%) per annum.

### (d) Amount due to subsidiary companies

As disclosed in Note 2.4, the Board of Directors had resolved in December 2007 that certain subsidiaries were to waive the amounts owing by the Company.

The amounts due to subsidiary companies comprise payments of expenses made on the Company's behalf. The balances are unsecured, non-interest bearing and have no fixed terms of repayment.

## 22. Subordinated Obligations

The subordinated loan represents a loan from a shareholder of a subsidiary company, Kenanga Deutsche Futures Sdn Bhd. The loan is unsecured, at 5% interest per annum (2006: 5%) and is due for repayment in January 2010, subject to approval being obtained from the Bursa Malaysia Derivatives Berhad.

## Notes to the Financial Statements (continued)

## 23. Borrowings

	Note	Group	
		2007	2006
		RM '000	RM '000
<b>Short Term Borrowings</b>			
Unsecured:			
Revolving bank loan	(a)	104,195	6,503
Notes issuance facility	(b)	-	120,000
Secured:			
Term loan	(c)	-	27,244
		<b>104,195</b>	<b>153,747</b>

**(a) Revolving bank loan**

This revolving bank loan to a subsidiary company, Kenanga Capital Sdn Bhd bears interest of 1.65% over KLIBOR (2006: 1.75% over KLIBOR) plus cost of maintaining statutory reserve and liquidity requirements payable on maturity of the loan. The maximum tenure for the loan is 90 days.

This loan is secured by:

- (a) corporate guarantees given by the Company of RM155 million; and
- (b) subordination to the bank of the Company's advances to the subsidiary company.

**(b) Notes issuance facility**

This notes issuance facility was secured by a corporate guarantee from the Company. This facility, with a facility amount of RM250 million, borne interest at the rate of 3.95% per annum and was repaid on 28 March 2007.

The weighted average effective interest rates at the balance sheet date for borrowings were as follows:

	Weighted average interest rate (% per annum)	
	2007	2006
Revolving bank loan	5.44	5.56
Secured notes issuance facility	3.95	3.95

**(c) Term Loan**

	Group	
	2007	2006
	RM '000	RM '000
Maturity of term loan:		
Within one year	-	27,244

## 23. Borrowings (continued)

The term loan was secured by the following:

- (a) first legal charge for RM33 million over the freehold land and building property of the subsidiary company; and
- (b) equitable assignment over rental income of the property.

This term loan was fully settled on 30th May 2007.

## 24. Share Capital

	Number of Ordinary Shares of RM1 each		Amount	
	2007	2006	2007	2006
	'000	'000	RM '000	RM '000
Authorised:				
At 1 January/31 December	<b>800,000</b>	800,000	<b>800,000</b>	800,000
Issued and fully paid:				
At 1 January/31 December	<b>611,759</b>	611,759	<b>611,759</b>	611,759

## 25. Reserves

	Note	Group		Company	
		2007	2006	2007	2006
		RM '000	RM '000	RM '000	RM '000
			(Restated)		(Restated)
<b>Non-distributable</b>					
Capital reserve	(a)	<b>40,952</b>	34,352	-	29,956
Share premium		<b>75</b>	75	<b>75</b>	75
Exchange reserve	(b)	<b>(1,326)</b>	(591)	-	-
Fair value reserve	(c)	<b>(696)</b>	8,992	-	-
Statutory reserve	(d)	<b>45,717</b>	-	-	-
		<b>84,722</b>	42,828	<b>75</b>	30,031
<b>Distributable</b>					
Retained profits		<b>167,353</b>	87,489	<b>50,680</b>	17,131
		<b>252,075</b>	130,317	<b>50,755</b>	47,162

# Notes to the Financial Statements (continued)

## 25. Reserves (continued)

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

- (a) **Capital reserve**  
The capital reserve of the Group arose from the capitalisation of bonus issue in certain subsidiaries. The capital reserve at the Company level in year 2006 relates to the adjustment made to restate the cost of investments in certain subsidiaries to the fair values of the shares issued as consideration for the acquisitions of the subsidiaries, arising from the adoption of FRS 127.
- (b) **Exchange reserve**  
The exchange reserve represents foreign exchange differences arising from the translation of the financial statements of foreign subsidiary and associated companies.
- (c) **Fair value reserve**  
This reserve represents unrealised gains or losses arising from changes in fair values of securities available-for-sale.
- (d) **Statutory reserve**  
The statutory reserve is maintained by the investment banking subsidiary in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as dividends.

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

The Company did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2007, the Company has sufficient in the 108 balance to pay franked dividends out of its entire retained profits.

## 26. Operating Revenue

Operating revenue of the Group comprises dividend income, brokerage fee, fund management fees, commission income, custodian fees, advisory fees, nominee fees and interest income.

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Dividend income	334	652	23,350	9,819
Gross brokerage	242,684	109,719	-	-
Fund management fees	466	395	-	-
Commission income	22,116	10,391	-	-
Custodian fees	1,247	751	-	-
Advisory fees	8,823	(27)	1	(1)
Interest income	30,740	7,455	-	-
Management services	-	-	303	825
Transaction fees	47	61	-	-
Placement fee	1,193	-	-	-
Underwriting fee	311	-	-	-
Loan processing fee	405	-	-	-
Processing fees	6	6	-	-
	<b>308,372</b>	129,403	<b>23,654</b>	10,643

## 27. Interest Income

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Loans, advances and financing				
- Interest income other than recoveries from NPLs	9,321	2,957	-	-
- Recoveries from NPLs	59	-	-	-
- Inter-company	-	-	3,216	3,863
Money at call and deposit placements with financial institutions	26,360	10,631	554	1,228
Securities purchased under resale agreements	145	43	-	-
Securities held-for-trading	3,762	571	483	510
Securities available-for-sale	7,789	106	-	-
Interest on Margin	24,342	20,351	-	-
Interest on reverse repo	27	-	-	-
Interest on Contra	2,000	2,014	-	-
	<b>73,805</b>	36,673	<b>4,253</b>	5,601
Amortisation of premium less accretion of discount	(58)	(3)	-	-
	<b>73,747</b>	36,670	<b>4,253</b>	5,601

## Notes to the Financial Statements (continued)

## 28. Interest Expense

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Deposits and placement of banks and other financial institutions	9,589	2,231	-	-
Term loan	2,644	-	2,644	-
Deposits from customers	18,013	31	-	-
Obligations on securities sold under repurchase agreements	222	-	-	-
Others	1,188	27	-	-
	<b>31,656</b>	2,289	<b>2,644</b>	-

## 29. Other Operating Income

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
(a) Fee income:				
Commissions	11,312	8,261	-	-
Service charges and fees	6,217	2,718	-	-
Guarantee fees	107	-	-	-
Underwriting fees	341	159	-	-
Brokerage income	242,684	109,719	-	-
Other fee income	14,976	9,210	1	(1)
	<b>275,637</b>	130,067	<b>1</b>	(1)
(b) Gain arising from sale of:				
Securities held-for-trading	5,209	5,691	3,313	3,399
Securities available-for-sale	371	5	-	-
	<b>5,580</b>	5,696	<b>3,313</b>	3,399
(c) Gross dividend income from:				
- Securities held-for-trading and securities available-for-sale	1,140	2,471	637	652
- subsidiary companies	-	-	22,713	9,167
	<b>1,140</b>	2,471	<b>23,350</b>	9,819

## 29. Other Operating Income (continued)

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
(d) Unrealised gains on revaluation of securities held-for-trading	<b>4,662</b>	1,357	<b>5,514</b>	1,930
(e) Other income:				
Foreign exchange profit	<b>353</b>	641	-	-
Gains on disposal of property, plant and equipment	<b>565</b>	95	-	-
Waiver of intercompany balances	-	-	<b>1,303</b>	-
Capital gain arising from receipt of shares in Bursa Malaysia Securities Berhad	<b>18,839</b>	-	-	-
Others	<b>3,249</b>	2,516	<b>322</b>	825
	<b>23,006</b>	3,252	<b>1,625</b>	825
<b>Total other operating income</b>	<b>310,025</b>	142,843	<b>33,803</b>	15,972

## 30. Other Operating Expenses

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>Personnel costs</b>				
- Salaries, allowances and bonuses	<b>68,169</b>	40,835	<b>4,879</b>	2,456
- Pension costs	<b>5,383</b>	4,016	<b>312</b>	189
- Others	<b>3,200</b>	1,676	<b>70</b>	60
	<b>76,752</b>	46,527	<b>5,261</b>	2,705
<b>Establishment costs</b>				
- Depreciation	<b>6,425</b>	4,404	<b>87</b>	24
- Rental of leasehold land and premises	<b>9,599</b>	4,443	<b>297</b>	114
- Repairs and maintenance of property, plant and equipment	<b>1,838</b>	1,863	<b>25</b>	25
- Information technology expenses	<b>2,698</b>	3,480	<b>6</b>	6
- Others	<b>4,062</b>	3,228	-	-
	<b>24,622</b>	17,418	<b>415</b>	169

## Notes to the Financial Statements (continued)

## 30. Other Operating Expenses (continued)

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>Marketing expenses</b>				
- Advertisement and publicity	489	129	82	4
- Others	2,725	10,460	41	21
	<b>3,214</b>	<b>10,589</b>	<b>123</b>	<b>25</b>
<b>Administration and general expenses</b>				
- Fees and brokerage	92,218	48,425	-	-
- Administrative expenses	46,972	11,125	1,785	1,740
- Impairment of investment in a subsidiary	-	-	1,000	-
- Write-off of intercompany balances	-	-	4,530	-
- Claims incurred	108	40	-	-
- Others	1,561	2,437	-	-
	<b>140,859</b>	<b>62,027</b>	<b>7,315</b>	<b>1,740</b>
<b>Total other operating expenses</b>	<b>245,447</b>	<b>136,561</b>	<b>13,114</b>	<b>4,639</b>
Included in the other operating expenses are the following:-				
<b>Auditors' remuneration</b>				
- current year	311	209	21	20
- overprovision in prior year	-	(4)	-	(4)
<b>Directors' remuneration (Note 34)</b>				
- fees	467	357	320	357
- emoluments	4,455	3,235	810	-
- benefits-in-kind	356	328	67	-
- underprovision in prior year	-	3	-	3
Hire purchase interest	17	28	-	-
(Write back)/provision for diminution in value of investments	(114)	1,744	-	-
Investments written off	-	250	-	-
Rental of equipment	875	1,777	-	-
Management fees paid to subsidiaries	-	-	219	237
Property, plant and equipment written off	337	1,345	-	-

## 31. Allowance for Losses on Loans, Advances and Financing

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>Allowances for bad and doubtful debts and financing:</b>				
- general allowance made (net)	(3,291)	-	-	-
- specific allowance	-	(541)	-	-
- specific allowance written back	-	10	-	-
Bad debts and financing written off	(2)	(1)	-	-
Bad debts and financing recovered	536	40	-	-
Provision for other debts	-	(122)	-	-
	<b>(2,757)</b>	<b>(614)</b>	-	-

## 32. Allowances on Bad &amp; Doubtful Accounts on Trade Receivables

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>Allowances for bad and doubtful debts and financing:</b>				
- general allowance made (net)	(459)	(681)	-	-
- specific allowance	(1,828)	5,944	-	-
- specific allowance written back	-	(250)	-	-
Bad debts and financing written off	(145)	(219)	-	-
Bad debts and financing recovered	33,365	345	-	-
Provision for other debts	(620)	-	-	-
	<b>30,313</b>	<b>5,139</b>	-	-

# Notes to the Financial Statements (continued)

## 33. Significant Related Party Transactions

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

	Company	
	2007	2006
	RM '000	RM '000
		(Restated)
Management fee paid to Amara Investment Management Sdn Bhd, (formerly known as Kenanga Investment Management Sdn Bhd), a former subsidiary company	34	237
Management fee paid to Kenanga Asset Management Sdn Bhd, a subsidiary company	185	-
Rental paid to Kenanga Management & Services Sdn Bhd, a subsidiary company	145	112
Interest on advances, charged to Kenanga Capital Sdn Bhd, a subsidiary company	1,112	1,185
Interest on advances, charged to Kenanga Management & Services Sdn Bhd, a subsidiary company	1,021	2,161
Interest on advances, charged to Kenanga Private Equity Sdn Bhd, a subsidiary company	-	126
Interest on subordinated loan, charged to Kenanga Deutsche Futures Sdn Bhd, a subsidiary company	1,083	390
Interest on placement with Kenanga Investment Bank Bhd, a subsidiary company	631	-
Net dividend income received from Kenanga Capital Sdn Bhd, a subsidiary company	2,500	6,600
Net dividend income received from Kenanga Management & Services Sdn Bhd, a subsidiary company	5,320	-
Net dividend income received from Kenanga Deutsche Futures Sdn Bhd, a subsidiary company	8,760	-
Waiver of intercompany balances - PSSB Corporate Services Sdn Bhd, a subsidiary company	1,303	-
Write-off of intercompany balances - Kenanga Securitues Custodian Sdn Bhd, a subsidiary company	61	-
Write-off of intercompany balances - Kenanga Private Equity Sdn Bhd, a subsidiary company	3,235	-
Write-off of intercompany balances - Kenanga Smart Access Sdn Bhd, a subsidiary company	112	-
Write-off of intercompany balances - Peninsula Research Sdn Bhd, a subsidiary company	19	-
Write-off of intercompany balances - Kenanga Business Access Sdn Bhd, a subsidiary company	1,103	-

## 34. Compensation of Key Management Personnel

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Short term employee benefits	10,486	6,733	810	-
Post-employment benefits:				
Defined contribution plan	886	579	-	-
Other long-term benefits	389	353	66	-
	11,761	7,665	876	-
Included in the total key management personnel are:				
Directors' remuneration	5,278	3,920	1,197	357
<b>Directors' remuneration</b>				
Executive directors' remuneration:				
Other emoluments	4,455	3,235	810	-
Non-executive directors' remuneration:				
Fees	467	357	320	357
<b>Total directors' remuneration</b>	4,922	3,592	1,130	357
Estimated money value of benefits-in-kind	356	328	67	-
<b>Total directors' remuneration including benefits-in-kind</b>	5,278	3,920	1,197	357

## Notes to the Financial Statements (continued)

## 34. Compensation of Key Management Personnel (continued)

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

	Group		Company	
	Number of Directors		Number of Directors	
	2007	2006	2007	2006
		(Restated)		(Restated)
<b>Executive directors:</b>				
Below RM200,000	-	1	-	-
RM200,001 - RM250,000	-	4	-	-
RM300,001 - RM350,000	-	2	-	-
RM350,001 - RM450,000	<b>3</b>	-	-	-
Above RM450,000	<b>3</b>	2	<b>1</b>	-
<b>Non-executive directors:</b>				
Below RM50,000	<b>6</b>	6	<b>2</b>	2
RM50,001 - RM100,000	<b>3</b>	3	<b>3</b>	3
Above RM450,000	<b>1</b>	-	-	-
<b>Past Directors</b>				
<b>Executive directors:</b>				
Below RM50,000	<b>2</b>	-	-	-
Above RM50,000	-	1	-	-
<b>Past Directors</b>				
<b>Non-executive directors:</b>				
Below RM50,000	<b>1</b>	-	-	-

## 35. Taxation

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
<b>Continuing Operations</b>				
Current income tax:				
Tax expense for the year	<b>34,759</b>	8,669	<b>8,400</b>	3,543
(Over)/under provision in prior years	<b>(3,965)</b>	(376)	<b>153</b>	(12)
Share of tax in associate companies	<b>33</b>	-	-	-
Deferred tax (Note 17):				
Relating to origination and reversal of temporary differences	<b>(2,343)</b>	854	<b>1,220</b>	(93)
<b>Total income tax expense from continuing operations</b>	<b>28,484</b>	9,147	<b>9,773</b>	3,438
<b>Discontinued operations</b>				
Current income tax:				
Malaysian income tax	<b>699</b>	467	-	-
Deferred tax (Note 17):				
Relating to origination and reversal of temporary differences	<b>(2,518)</b>	580	-	-
<b>Total income tax expense from discontinued operation</b>	<b>(1,819)</b>	1,047	-	-
<b>Total income tax expense</b>	<b>26,665</b>	10,194	<b>9,773</b>	3,438

Domestic income tax is calculated at the Malaysian statutory tax rate of 27% (2006: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 26% from the current year's rate of 27%, effective year of assessment 2008 and to 25% in subsequent years of assessment. The computation of deferred tax as at 31 December 2007 has reflected these changes.

## Notes to the Financial Statements (continued)

## 35. Taxation (continued)

	Group		Company	
	2007	2006	2007	2006
	RM '000	RM '000	RM '000	RM '000
		(Restated)		(Restated)
Profit before taxation:				
Continuing operations	<b>134,058</b>	45,188	<b>22,298</b>	16,934
Discontinued operations	<b>36,391</b>	(4,759)	-	-
	<b>170,449</b>	40,429	<b>22,298</b>	16,934
Tax at Malaysian statutory tax rate of 27% (2006: 28%)	<b>46,021</b>	11,318	<b>6,020</b>	4,742
Tax savings on first RM500,000 at 20%	<b>(5)</b>	(43)	-	-
Tax effect of expenses that are not deductible for tax purposes	<b>4,175</b>	2,393	<b>3,979</b>	325
Income not subject to tax	<b>(21,080)</b>	(1,800)	<b>(371)</b>	(1,524)
Deferred tax assets not recognised	<b>101</b>	486	-	(93)
Effect of changes in tax rate on opening deferred tax	<b>1,418</b>	-	<b>(8)</b>	-
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	-	(1,784)	-	-
(Over)/under provision in prior years	<b>(3,965)</b>	(376)	<b>153</b>	(12)
	<b>26,665</b>	10,194	<b>9,773</b>	3,438
Tax savings recognised during the year arising from:				
Utilisation of current year tax losses	<b>128</b>	113	-	-

## 36. Earnings Per Share - Basic/ Diluted

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

	2007	2006
	RM '000	RM '000
		(Restated)
Profit from continuing operations attributable to ordinary equity holders of the Company	<b>102,903</b>	34,490
Profit/(loss) from discontinued operations attributable ordinary equity holders of the Company	<b>38,210</b>	(5,806)
Profit attributable to ordinary equity holders of the Company	<b>141,113</b>	28,684

## 36. Earnings Per Share - Basic/ Diluted (continued)

	2007	2006
	RM '000	RM '000
		(Restated)
Weighted average number of ordinary shares in issue	611,759	611,759
Basic/diluted earnings per share for:		
Profit from continuing operations	16.82	5.64
Profit/(loss) from discontinued operations	6.25	(0.95)
Profit for the year	23.07	4.69

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

## 37. Dividends

	2007	2006
	RM '000	RM '000
		(Restated)
<b>Recognised during the year:</b>		
First and final dividend of 2% less tax at 27%, based on 611,759,499 ordinary shares in respect of the year ended 31 December 2006.	8,932	-
First and final dividend of 1.5% less tax at 28%, based on 611,759,499 ordinary shares in respect of the year ended 31 December 2005.	-	6,607
<b>Proposed for approval at AGM (not recognised as at 31 December):</b>		
First and final dividend of 5% less 26% taxation on 611,759,499 ordinary shares (3.7 sen per ordinary share) in respect of the year ended 31 December 2007.	22,639	-
First and final dividend of 2% less tax at 27%, based on 611,759,499 ordinary shares in respect of the year ended 31 December 2006.	-	8,932

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 December 2007, of 5% less 26% taxation on 611,759,499 ordinary shares, amounting to a dividend payable of RM22,635,101 (3.7 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2008.

# Notes to the Financial Statements (continued)

## 38. Commitments And Contingencies

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

Risk weighted exposure of the Group as follows:-

	2007			2006		
	Principal Amount	Credit Equivalent Amount*	Risk Weighted Amount	Principal Amount	Credit Equivalent Amount*	Risk Weighted Amount
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	40	-	-	9,723	-	-
Obligation under underwriting agreements	144,910	72,455	72,455	10,036	5,018	5,018
Commitments to extend credit with maturity of less than 1 year:						
- margin	779,039	-	-	538,476	-	-
- term loan	197,500	98,750	98,750	-	-	-
Non-cancellable lease rental commitments	-	-	-	518	518	518
Other commitments and contingencies	68	-	-	618	-	-
	<b>1,121,557</b>	<b>171,205</b>	<b>171,205</b>	<b>559,371</b>	<b>5,536</b>	<b>5,536</b>

\* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia's guidelines. The foreign related contracts are all forward contracts. Foreign exchange contracts are subject to market risk and credit risk.

## 39. Financial Risk Management Policies

### (a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of its business whilst managing its, liquidity risk, interest rate risk, market risk, foreign currency risk and credit risks. The Group operates within clearly defined guidelines that are approved by the Board.

### (b) Liquidity Risk

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

### 39. Financial Risk Management Policies (continued)

#### (c) Credit Risk

Credit risks, or the risks of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to customers with high creditworthiness. Balances due from clients and brokers are monitored on an ongoing basis via Group management reporting procedures. The Group through its directors and management, reviews all significant exposure to individual customers and counterparties and reviews any major concentration of credit risk related to any financial instruments.

The Group has risk management procedures in place to manage these risks to ensure that all the procedures and principles relating to risk management are adhered to.

#### (d) Interest Rate Risk

The Group's policy is to borrow principally on floating rate basis for the purposes of its working capital only. The information on effective interest rates of borrowings is disclosed in Note 23.

Financial asset investments are mainly short term in nature and have been placed mostly in fixed deposits at competitive rates obtainable. The information on effective interest rates of deposits is disclosed in Note 3.

Interest rates for share margin financing facilities provided by the Group are reflective of prevailing market rates.

#### (e) Market Risk

Market risk is the risk of loss arising from changes in prices of equity instruments and other financial instruments in the markets in which the Group operates. The Group also engages in bond proprietary trading to generate revenue in anticipation of changes in prices that may occur in the debt capital market.

The Group manages the risk of unfavourable price changes by cautious reviews of investments and collaterals held with continuous monitoring of their performance and risk profiles by qualified personnel.

#### (f) Foreign currency risk

The group has minimal currency risk as transactions in foreign currency have not been significant and oversea investments have only just begun during the year.

### 40. Interest Rate Risk

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

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

## 40. Interest Rate Risk (continued)

GROUP 2007	Up to	>1-3 months	>3-12 months	1-5 years	Over 5 years	Non interest sensitive	Trading book	Total	Effective interest rate
	1 month	RM'000	RM'000	RM'000	RM'000				
<b>Assets</b>									
Cash and short term funds	332,708	-	-	-	-	276,435	-	609,143	3.50%
Deposits and placement with financial institutions	-	-	-	-	-	18,847	-	18,847	
Securities held-for-trading	-	-	-	-	-	-	218,853	218,853	3.71%
Securities available-for-sale	48,990	70,843	58,669	251,678	27,645	13,348	-	471,173	4.85%
Securities held-to-maturity	-	-	-	-	-	1,490	-	1,490	
Loans, advances and financing	17,817	110,381	87,882	-	-	-	-	216,080	7.23%
Other assets (N1)	354,012	-	-	-	-	324,444	-	678,456	8.40%
Assets segregated by customers	391,053	-	2,000	-	-	4,026	-	397,079	2.45%
Other non interest sensitive balances	419	-	-	-	-	190,042	-	190,461	
<b>Total assets</b>	1,144,999	181,224	148,551	251,678	27,645	828,632	218,853	2,801,582	
<b>Liabilities</b>									
Deposits from customers	347,414	32,104	7,826	-	-	-	-	387,344	3.43%
Deposits and placement of banks and other financial institutions	54,100	77,520	184,051	157,930	-	-	-	473,601	3.64%
Borrowings	104,195	-	-	-	-	-	-	104,195	5.44%
Subordinated bonds	-	-	-	1,384	-	-	-	1,384	5.00%
Other non interest sensitive balances	4	9	40	72	13,013	954,367	-	967,505	
<b>Total liabilities</b>	505,713	109,633	191,917	159,386	13,013	954,367	-	1,934,029	
Equity	-	-	-	-	-	863,834	-	863,834	
Minority interest	-	-	-	-	-	3,719	-	3,719	
<b>Total liabilities and equity</b>	505,713	109,633	191,917	159,386	13,013	1,821,920	-	2,801,582	
On-balance sheet interest sensitivity gap	639,286	71,591	(43,366)	92,292	14,632	(993,288)	218,853	-	
Total interest sensitivity gap	639,286	71,591	(43,366)	92,292	14,632	(993,288)	218,853	-	

N1: Specific allowance and general allowance of the Bank are classified under the non interest sensitive column.

## 40. Interest Rate Risk (continued)

COMPANY	Up to	>1-3 months	>3-12 months	1-5 years	Over 5 years	Non interest sensitive	Trading book	Total	Effective interest rate
	1 month	RM'000	RM'000	RM'000	RM'000				
2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Assets</b>									
Cash and short term funds	39,397	-	-	-	-	1,310	-	40,707	3.41%
Securities held-for-trading	-	-	-	-	-	-	34,595	34,595	
Other non interest sensitive balances	-	-	-	-	-	644,843	-	644,843	
<b>Total assets</b>	<b>39,397</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>646,153</b>	<b>34,595</b>	<b>720,145</b>	
<b>Liabilities</b>									
Other non interest sensitive balances	-	-	-	-	-	57,631	-	57,631	
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,631</b>	<b>-</b>	<b>57,631</b>	
Equity	-	-	-	-	-	662,514	-	662,514	
<b>Total liabilities and equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>720,145</b>	<b>-</b>	<b>720,145</b>	
On-balance sheet interest sensitivity gap	39,397	-	-	-	-	(73,992)	34,595	-	
Total interest sensitivity gap	39,397	-	-	-	-	(73,992)	34,595	-	

40. Interest Rate Risk (continued)

GROUP 2006	Up to 1 month	>1-3 months	>3-12 months	1-5 years	Over 5 years	Non interest sensitive	Trading book	Total	Effective interest rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>									
Cash and short term funds	166,863	-	-	-	-	139,338	-	306,201	3.52%
Deposits and placement with financial institutions	-	-	2,000	-	-	-	-	2,000	3.43%
Securities purchased under resale agreement	118,706	-	-	-	-	-	-	118,706	
Securities held-for-trading	-	-	-	-	-	-	24,907	24,907	
Securities available-for-sale	9,985	-	-	-	5,049	19,920	-	34,954	3.44%
Securities held-to-maturity	-	-	-	-	-	1,490	-	1,490	
Loans, advances and financing	35,191	9,566	11,189	-	-	837	-	56,783	8.00%
Other assets (NI)	289,147	-	-	-	-	170,291	-	459,438	9.00%
Assets segregated by customers	359,850	-	-	-	-	-	-	359,850	1.40%
Other non interest sensitive balances	-	-	-	-	-	245,482	-	245,482	
<b>Total assets</b>	<b>979,742</b>	<b>9,566</b>	<b>13,189</b>	<b>-</b>	<b>5,049</b>	<b>577,358</b>	<b>24,907</b>	<b>1,609,811</b>	
<b>Liabilities</b>									
Borrowings	7,195	530	146,022	-	-	-	-	153,747	4.37%
Subordinated bonds	-	-	-	1,350	-	-	-	1,350	5.00%
Other non interest sensitive balances	-	-	-	-	-	708,349	-	708,349	
<b>Total liabilities</b>	<b>7,195</b>	<b>530</b>	<b>146,022</b>	<b>1,350</b>	<b>-</b>	<b>708,349</b>	<b>-</b>	<b>863,446</b>	
Equity	-	-	-	-	-	742,076	-	742,076	
Minority interest	-	-	-	-	-	4,289	-	4,289	
<b>Total liabilities and equity</b>	<b>7,195</b>	<b>530</b>	<b>146,022</b>	<b>1,350</b>	<b>-</b>	<b>1,454,714</b>	<b>-</b>	<b>1,609,811</b>	
On-balance sheet interest sensitivity gap	972,546	9,036	(132,833)	(1,350)	5,049	(817,356)	24,907	-	
Total interest sensitivity gap	972,546	9,036	(132,833)	(1,350)	5,049	(817,356)	24,907	-	

N1: Specific allowance and general allowance of the Bank are classified under the non interest sensitive column.

## 40. Interest Rate Risk (continued)

COMPANY 2006	Up to	>1-3 months	>3-12 months	1-5 years	Over 5 years	Non interest sensitive	Trading book	Total	Effective interest rate
	1 month RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>									
Cash and short term funds	33,704	-	-	-	-	598	-	34,302	3.41%
Securities held-for-trading	-	-	-	-	-	-	16,535	16,535	
Other non interest sensitive balances	-	-	-	-	-	735,955	-	735,955	
<b>Total assets</b>	<b>33,704</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>736,553</b>	<b>16,535</b>	<b>786,792</b>	
<b>Liabilities</b>									
Other non interest sensitive balances	-	-	-	-	-	127,871	-	127,871	
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127,871</b>	<b>-</b>	<b>127,871</b>	
Equity	-	-	-	-	-	658,921	-	658,921	
<b>Total liabilities and equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>786,792</b>	<b>-</b>	<b>786,792</b>	
On-balance sheet interest sensitivity gap									
	34,302	-	-	-	-	(50,837)	16,535	-	
Total interest sensitivity gap	34,302	-	-	-	-	(50,837)	16,535	-	

## Notes to the Financial Statements (continued)

## 41. Capital Commitment

	Group	
	2007	2006
	RM '000	RM '000
Approved and contracted for	988	518
Approved but not contracted for	5,942	2,274
	<b>6,930</b>	<b>2,792</b>

## 42. Contingent Liabilities/other Commitments

	Group	
	2007	2006
	RM '000	RM '000
<b>(i) Contingent Liabilities - Unsecured</b>		
Contingent liabilities arising from legal actions taken by clients and a former dealer representative against a subsidiary company. Two of the three cases were struck out by the Court with costs. However, the Plaintiff has filed appealed to the Court of appeal and are pending.	<b>2,247</b>	2,247
A subsidiary company had served a formal demand on a software vendor for breach of contracts for an amount of USD2,246,440. In response, the subsidiary company had, via its solicitors, been served with a formal demand on the same contract for an amount of USD1,240,800.	<b>4,715</b>	4,715
Bank guarantee issued to Bursa Malaysia Securities Berhad on behalf of a subsidiary company in relation to its obligation to contribute to the clearing guarantee fund.	<b>1,174</b>	1,070
On 19 July 2005, a subsidiary of the Company has commenced legal proceedings against three clients for losses amounting to RM2.3 million arising from the force-selling of shares after the equity ratio for the shares fell below the force-selling ratio. These three clients have in turn initiated legal action against the subsidiary company for the price difference between the purchase and sale of shares which were forced sold. One of the cases was dismissed in November 2006 by the Court but the client has appealed against the decision.	<b>6,631</b>	6,631
A subsidiary of the Company litigated against a former dealer representative ("defendant") for losses incurred by the clients and in the defence, the defendant counter claimed for commission that had been set off against the losses. The Court allowed the subsidiary's application to strike out the counter claim and upon appeal by the defendant to the High Court, the appeal was dismissed. The defendant filed an appeal to the Court of Appeal. In respect of the subsidiary's claim against the defendant, the Court dismissed the subsidiary's summary judgment application. The subsidiary has also filed an appeal to the Court of Appeal. Both claims are status quo until the claims are resolved by the Court of Appeal.	<b>3,113</b>	3,113

## 42. Contingent Liabilities/other Commitments (continued)

		Group	
		2007	2006
		RM '000	RM '000
<b>(i) Contingent Liabilities - Unsecured (continued)</b>			
A subsidiary of the Company was on 23 March 2007 served with letter of demand from an individual for the transfer of 10 million shares in a listed company purportedly subscribe at an IPO price and allegedly held by the subsidiary nominated agents in trust for the client. The subsidiary had lodged a police report on this matter as it was not a placement agent for these shares and was unaware of these purported transactions.		1,000	-
A subsidiary of the Company was on 23 March 2007 served with 2 letters of demand from 2 individuals demanding the transfer to each of them 550,000 shares in a listed company. These shares were purportedly subscribed by them at an IPO price and allegedly held by the subsidiary's nominated agent in trust for them. The subsidiary had lodged a police report on this matter as it was not a placement agent for these shares and was unaware of these purported transactions.		1,870	-
		Company	
		2007	2006
		RM '000	RM '000
Corporate guarantee provided by the Company for subsidiary companies for credit facilities granted by licensed banks.		774,000	896,000
Corporate guarantee provided by the Company for a subsidiary company to a counter party against cash collateral.		85,000	15,000
		Group	
		2007	2006
		RM '000	RM '000
<b>(ii) Non-Cancellable Operating Lease Commitments</b>			
(a)	Underwriting commitments	144,910	10,036
(b)	Future minimum rental payable:		
	Not later than 1 year	343	397
	Later than 1 year and not later than 5 years	150	171
		493	568

# Notes to the Financial Statements (continued)

## 43. Capital Adequacy

The Group is not required to maintain any capital adequacy ratio requirements except for the investment banking subsidiary company, Kenanga Investment Bank Berhad (Bank). The following disclosure of capital adequacy ratio is in respect of the bank:

	Bank	
	2007	2006
<b>Capital Ratios</b>		
Core capital ratio	<b>47.31%</b>	41.98%
Risk-weighted capital ratio	<b>47.31%</b>	41.98%
	<b>RM'000</b>	RM'000
<b>Tier I capital</b>		
Paid-up share capital	<b>580,000</b>	460,000
Retained profits	<b>81,317</b>	35,599
Statutory reserve	<b>45,717</b>	-
	<b>707,034</b>	495,599
Less: Purchased goodwill	<b>(17,606)</b>	(17,606)
Deferred tax assets	<b>(3,061)</b>	-
Total Tier I capital	<b>686,367</b>	477,993
<b>Tier II Capital</b>		
General allowance for bad and doubtful debts	<b>1,524</b>	-
Total Tier II capital	<b>1,524</b>	-
Total Capital	<b>687,891</b>	477,993
Less: Investment in subsidiaries	<b>(23,838)</b>	(28,369)
<b>Total Capital Base</b>	<b>664,053</b>	449,624

Breakdown of risk weighted assets in the various categories of risk-weighted are as follows:

	2007		2006	
	Notional	Risk-weighted	Notional	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
0%	<b>106,056</b>	-	<b>10,038</b>	-
10%	<b>85,417</b>	8,542	<b>50,350</b>	5,035
20%	<b>603,209</b>	120,642	<b>153,676</b>	30,735
100%	<b>1,007,124</b>	1,007,124	<b>972,935</b>	972,935
Risk-weighted assets for market risk	<b>267,393</b>	267,393	<b>62,293</b>	62,293
<b>Total Risk Weighted Assets</b>	<b>2,069,199</b>	1,403,701	<b>1,249,292</b>	1,070,998

## 44. Segmental Reporting

The directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

### **(a) Reporting Format**

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary analysis by geographical location have not been prepared as the Group's operations are predominantly conducted in Malaysia. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

### **(b) Business Segment**

Segment information is presented in respect of the Group's business segments. The Group comprises the following main business segments:

- (i) Investment bank - Investment banking business and related financial services;
- (ii) Stockbroking - Dealings in securities and investment related services;
- (iii) Futures - Futures broking;
- (iv) Money lending - Licensed money lender for initial public offers and share option schemes;
- (v) Property management - Management and letting of properties;
- (vi) Investment management - Management of funds; and
- (vii) Corporate and others - Not significant to be separately disclosed.

### 44. Segmental Reporting (continued)

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

	Continuing Operations							Discontinued Operations				
	Investment Bank RM'000	Stockbroking RM'000	Futures RM'000	Money Lending RM'000	Property Management RM'000	Investment Management RM'000	Corporate and Others RM'000	Eliminations RM'000	Total RM'000	Property Management RM'000	Investment Management RM'000	Total RM'000
<b>31 December 2007</b>												
<b>Revenue</b>												
External sales	32,801	242,624	22,069	9,579	-	467	832	-	308,372	2,787	914	312,073
Inter-segment sales	-	-	-	-	-	160	23,857	(24,017)	-	-	-	-
<b>Total revenue</b>	<b>32,801</b>	<b>242,624</b>	<b>22,069</b>	<b>9,579</b>	<b>-</b>	<b>627</b>	<b>24,689</b>	<b>(24,017)</b>	<b>308,372</b>	<b>2,787</b>	<b>914</b>	<b>312,073</b>
<b>Result</b>												
Segment results	10,376	120,519	20,552	9,650	48	(1,236)	(248,776)	252,031	163,164	38,994	114	202,272
Profit from operation												202,272
Finance cost, net	(20,237)	(31)	(5,951)	(5,651)	-	-	(2,645)	2,859	(31,656)	-	-	(31,656)
Taxation	-	(19,962)	(3,655)	(1,160)	(12)	-	(10,025)	6,363	(28,451)	1,819	-	(26,632)
Profit after taxation	-	-	-	-	-	-	-	(200)	(200)	-	-	143,984
Share of results of associates	-	-	-	-	-	-	-	-	-	-	-	(200)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	(2,671)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	141,113
<b>Assets</b>												
Segments assets	514,143	1,645,822	445,626	130,517	62,705	15,404	731,324	(748,199)	2,797,342	-	-	2,797,342
Unallocated corporate assets	-	-	-	-	-	-	-	-	-	-	-	4,240
Consolidated total assets	-	-	-	-	-	-	-	-	-	-	-	2,801,582
<b>Liabilities</b>												
Segment liabilities	902,373	554,324	430,207	118,932	597	305	57,178	(132,749)	1,931,167	-	-	1,931,167
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	-	-	-	2,862
Consolidated total liabilities	-	-	-	-	-	-	-	-	-	-	-	1,934,029
<b>Other information</b>												
Capital expenditure	-	5,671	242	180	226	14	994	-	7,327	-	-	6,483
Depreciation & Amortisation	-	5,419	224	236	82	236	228	-	6,425	-	58	(114)
Provision for diminution in value	-	-	(1,170)	-	-	-	1,056	-	(114)	-	-	(114)
Non-cash expenses other than depreciation, amortisation and provision for diminution in value	-	(48,417)	-	1,764	-	3	(10,562)	-	(57,212)	(37,336)	-	(94,548)

#### 44. Segmental Reporting (continued)

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

	Continuing Operations										Discontinued Operations		
	Investment Bank	Stockbroking	Futures	Money Lending	Property Management	Investment Management	Corporate and Others	Eliminations	Total	Property Management	Investment Management	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>31 December 2006 (Restated)</b>													
<b>Revenue</b>													
External sales	-	109,719	14,844	3,692	-	396	752	-	129,403	5,818	910	136,131	
Inter-segment sales	-	-	-	-	-	-	10,081	(10,081)	-	-	-	-	
<b>Total revenue</b>	-	109,719	14,844	3,692	-	396	10,833	(10,081)	129,403	5,818	910	136,131	
<b>Result</b>													
Segment results	-	25,541	9,708	4,256	-	(1,398)	14,157	(4,787)	47,477	(2,288)	(649)	44,540	
Profit from operation												44,540	
Finance cost, net	-	(140)	(1,651)	(2,073)	-	-	(126)	1,701	(2,289)	(1,822)	-	(4,111)	
Taxation	-	(5,466)	(2,315)	(337)	-	-	(3,596)	2,567	(9,147)	(1,047)	-	(10,194)	
Profit after taxation												30,235	
Minority interests	-	-	-	-	-	-	-	-	-	-	-	(1,551)	
Net profit for the year	-	25,541	9,708	4,256	-	(1,398)	14,157	(4,787)	47,477	(2,288)	(649)	44,540	
<b>Assets</b>													
Segments assets	-	963,266	388,469	69,709	2,978	16,585	1,257,445	(1,228,618)	1,469,834	127,994	3,658	1,601,486	
Unallocated corporate assets	-	-	-	-	-	-	-	-	-	-	-	8,325	
Consolidated total assets	-	963,266	388,469	69,709	2,978	16,585	1,257,445	(1,228,618)	1,469,834	127,994	3,658	1,601,486	
<b>Liabilities</b>													
Segment liabilities	-	459,157	372,117	61,827	70,809	251	315,398	(454,458)	825,101	31,085	362	856,548	
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	-	-	-	6,898	
Consolidated total liabilities	-	459,157	372,117	61,827	70,809	251	315,398	(454,458)	825,101	31,085	362	856,548	
<b>Other information</b>													
Capital expenditure	-	7,684	373	108	19	517	574	-	9,275	2,540	40	11,855	
Depreciation & Amortisation	-	3,681	154	209	-	203	157	-	4,404	3,602	-	8,006	
Provision for diminution in value	-	-	-	-	-	-	1,744	-	1,744	-	-	1,744	
Non-cash expenses other than depreciation, amortisation and provision for diminution in value	-	(4,984)	102	(39)	-	-	(4,658)	-	(9,579)	-	-	(9,579)	

## Notes to the Financial Statements (continued)

## 45. Fair Value of Financial Assets and Liabilities

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	RM'000	RM'000	RM'000	RM'000
			(Restated)	
<b>GROUP</b>				
<b>Financial assets</b>				
Cash and short-term funds	609,143	609,143	306,201	306,201
Deposits and placement with financial institutions	18,847	18,847	2,000	2,000
Securities purchased under resale agreements	-	-	118,706	118,706
Securities held-for-trading	218,853	218,853	24,907	24,907
Securities available-for-sale	471,173	471,173	34,954	34,954
Securities held-to-maturity	1,490	2,438	1,490	2,416
Loans, advances and financing	216,080	216,080	56,783	56,783
Balances due from clients and brokers	660,365	660,365	459,438	459,438
Other assets	416,211	416,211	377,933	377,933
<b>Financial liabilities</b>				
Deposits from customers	387,344	387,344	-	-
Deposits and placements of bank and other financial institutions	473,601	473,601	-	-
Other liabilities	966,438	966,438	698,006	698,006
Subordinated Bonds	1,384	1,384	1,350	1,350
Borrowings	104,195	104,195	153,747	153,747
<b>COMPANY</b>				
<b>Financial assets</b>				
Cash and short term funds	40,707	40,707	34,302	34,302
Securities held-for-trading	34,595	34,595	16,535	16,535
Balances due from clients and brokers	-	-	4	4
Other assets	14,051	14,051	60,810	60,810
<b>Financial liabilities</b>				
Other liabilities	56,638	56,638	127,871	127,871

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

The methods and assumptions used in estimating the fair values of financial instruments are as follows:-

**(i) Cash and short-term funds**

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

**(ii) Deposits and placements with financial institutions**

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

## 45. Fair Value of Financial Assets and Liabilities (continued)

### (iii) Securities held-for-trading, Securities available-for-sale and Securities held-to-maturity

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

### (iv) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans and Islamic financing with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at balance sheet date offered to new borrowers with similar credit profiles. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of specific allowance for bad and doubtful debts and financing.

### (v) Deposits from customers

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

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

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

### (vii) Subordinated obligations

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

### (viii) Lending-related commitments

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

### (ix) Balances due from/due to clients and brokers

The carrying amounts are reasonable estimates of the fair values because of their short tenure.

## 46. Significant Events

- (i) The signing of a Memorandum of agreement on 23 February 2006 between the Company and a Professor Dr. Al Jefri Yasin Abdulrahman, the representative of a group of investors from the Kingdom of Saudi Arabia, on the proposed setting up of a joint-venture to carry on securities and investment banking activities in Saudi Arabia.

On 30 December 2007, Alwasatah Almaliah (Co.) was incorporated to undertake the above stated business and Kenanga Investment Bank Berhad, a subsidiary company of the Company paid RM68.4 million for a 29.6% stake in that company.

# Notes to the Financial Statements (continued)

## 46. Significant Events (continued)

- (ii) On 18 June 2007, the Company subscribed for 4,500,000 ordinary shares of Rupees 10 each fully paid at par in the share capital of SMB-Kenanga Investment Corporation Limited, an associated company incorporated in Sri Lanka.
- (iii) On 21 June 2007, the Company subscribed for 2,550,000 ordinary shares of USD1.00 each fully paid at par in the share capital of Mena Financial Group Limited, another associated company incorporated in the Dubai International Financial Centre.
- (iv) On 11 September 2007, the wholly owned subsidiary company, Kenanga Investment Bank Berhad entered into a Memorandum of Understanding with Good Morning Shinhan Securities Co. Ltd, a company incorporated in Korea with the intention of establishing a strategic alliance to provide financial and investment services, ancillary services and investment products as will be agreed upon from time to time between Kenanga Investment Bank Berhad and Good Morning Shinhan Securities Co. Ltd. The Memorandum of Understanding comes into effect from the signing date of the Memorandum of Understanding and shall continue for a period of three years, with the option of extension in time period as confirmed in writing and signed by both parties.
- (v) On 14 November 2007, the wholly owned subsidiary company, Kenanga Investment Bank Berhad entered into a Memorandum of Understanding with PT Hortus Danavest, a company incorporated in Indonesia with the intention of establishing a strategic alliance to provide investment banking and stockbroking services, ancillary services and investment products as will be agreed upon from time to time between Kenanga Investment Bank Berhad and PT Hortus Danavest. The Memorandum of Understanding comes into effect from the signing of the Memorandum of Understanding and shall continue for a period of three years, with the option of extension in time period as confirmed in writing and signed by both parties.
- (vi) The signing of a Memorandum of Understanding on 14 December 2007 where the Company or its subsidiary company will purchase up to 49% equity interest in Vietnam Golden Securities Corporation paid up capital/charter of VND40,000,000,000 divided into 4,000,000 ordinary shares of VND10,000 per share. Vietnam Golden Securities Corporation is licensed by the State Securities Commission of Vietnam and will be principally conducting stockbroking and advisory operations, custodian services and such other securities related activities as may be permitted by the regulatory authorities of Vietnam.

The memorandum of Understanding shall be effective for three months from the date of execution and may be extended by mutual consent.

## 47. Changes in Accounting Policies and Prior Year Adjustment

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2007. The effects of changes in accounting policies are set out below:

### (a) Application of BNM/GP8

During the current year, upon transformation into an Investment Bank, the Group and the Company adopted the BNM/GP8 issued by BNM, which provides guidance on presentation and disclosure of the financial statements as well as recognition, measurement and classification of securities portfolio. The adoption of the BNM/GP8 has resulted in the following changes in accounting policies:

#### Recognition and measurement of securities

Previously, securities were classified as either "Non-current investments" or "Short term investments". Non-current investments are stated at cost, adjusted for amortisation of premium or accretion of discount and allowance for diminution in value will be made for non-temporary decline in value. Short term investments are stated at the lower of cost, adjusted for accrued interest, where applicable and market value, determined on a total portfolio basis. Any gain/loss arising from revaluation or sale of securities is recognised in the income statement.

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

Based on the BNM/GP8 guidelines, securities held by the Group and the Company are classified into categories as stated in note 2(f) to the financial statements. Securities held-for-trading and securities available-for-sale ("AFS") are measured at fair value, with changes in fair value recognised in income statement and equity respectively. Equity securities, which have no quoted price in an active market and whose fair value cannot be reliably measured, are classified as securities AFS and stated at cost. Securities held-to-maturity ("HTM") are measured at amortised cost using the effective interest method. Impairment losses arising from securities AFS and securities HTM are recognised in the income statement.

### (b) Prior year adjustment

In the previous year, a capital reserve totaling RM128.816 million arose upon adoption of FRS 127 which became effective for the financial periods commencing 1 January 2006 to restate the cost of investments in SSSB Management Services Sdn Bhd and Sarawak Securities Futures Sdn Bhd, subsidiaries to the fair values of the shares issued as consideration for the acquisitions of these subsidiaries. The acquisition of these subsidiaries were originally accounted for under the merger method where the nominal value of shares issued by the Company in consideration for the acquisitions were taken as the deemed cost of investments.

This capital reserve has been restated in the current financial year to RM29.956 million as a prior year adjustment to reflect the write down of the cost of investment in these subsidiaries by RM98.861 million as mentioned in Note 2.4 to the financial statements.

### (c) Comparative Figures

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

	Group			As restated RM '000
	Effects of BNM/GP8			
	As previously reported RM '000	Recognition and measurement of securities RM '000	Reclassification RM '000	
<b>Balance Sheet as at 31 December 2006</b>				
Cash and short term funds	-	-	306,201	306,201
Deposits and placements with financial institutions	-	-	2,000	2,000
Securities purchased under resale agreements	-	-	118,706	118,706
Securities held-for-trading	-	2,383	22,524	24,907
Securities available-for-sale	-	14,389	20,565	34,954
Securities held-to-maturity	-	-	1,490	1,490
Loans, advances and financing	-	-	56,783	56,783
Balances due from clients and brokers	-	-	459,438	459,438
Balance c/f	-	16,772	987,707	1,004,479

## Notes to the Financial Statements (continued)

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

## (c) Comparative Figures (continued)

	Group			As restated RM '000
	Effects of BNM/GP8			
	As previously reported RM '000	Recognition and measurement of securities RM '000	Reclassification RM '000	
<b>Balance Sheet as at 31 December 2006</b>				
Balance b/f	-	16,772	987,707	1,004,479
Other assets	-	-	377,933	377,933
Other liabilities	-	-	(698,006)	(698,006)
Property, plant and equipment	25,304	-	-	25,304
Investment (Non-current assets)	2,479	-	(2,479)	-
Intangible assets	70,106	-	-	70,106
Clearing fund contribution	1,000	-	(1,000)	-
Deferred tax assets	390	-	-	390
Trade receivables	517,404	-	(517,404)	-
Assets segregated for customers	359,850	-	(359,850)	-
Other receivables	8,965	-	(8,965)	-
Tax recoverable	7,935	-	(7,935)	-
Short term investments	198,331	-	(198,331)	-
Short term deposits	201,766	-	(201,766)	-
Cash and bank balances	67,904	-	(67,904)	-
Assets of disposal group/ Non-current assets classified as held for sale	131,599	-	-	131,599
Borrowings	(153,747)	-	-	(153,747)
Trade payables	(518,678)	-	518,678	-
Other payables	(46,833)	-	46,833	-
Amount held in trust	(131,325)	-	131,325	-
Finance lease payable	(422)	-	422	-
Current tax payable	(742)	-	742	-
Subordinated loan	(1,350)	-	-	(1,350)
Deferred tax liabilities	(2,618)	(3,538)	-	(6,156)
Liabilities directly associated with assets classified as held for sale	(4,187)	-	-	(4,187)
Reserves	(117,083)	(13,234)	-	(130,317)
	616,048	-	-	616,048

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

## (c) Comparative Figures (continued)

	Company				
	As previously reported	BNM/GP8	FRS127	Reclassification	As restated
	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Balance Sheet as at 31 December 2006</b>					
Cash and short term funds	-	-	-	34,302	34,302
Securities held-for-trading	-	1,842	-	14,693	16,535
Balances due from clients and brokers	-	-	-	4	4
Other assets	-	-	-	60,810	60,810
Investment in subsidiaries	-	-	(280,942)	955,775	674,833
Other liabilities	-	-	182,081	(309,952)	(127,871)
Property, plant and equipment	81	-	-	-	81
Subsidiary companies	955,775	-	-	(955,775)	-
Deferred tax assets	227	-	-	-	227
Trade receivables	4	-	-	(4)	-
Other receivables	72	-	-	(72)	-
Tax recoverable	831	-	-	(831)	-
Amount due from subsidiary companies	59,907	-	-	(59,907)	-
Short term investments	42,417	-	-	(42,417)	-
Short term deposits	5,980	-	-	(5,980)	-
Cash and bank balances	598	-	-	(598)	-
Other payables	(1,837)	-	-	1,837	-
Amount due to subsidiary companies	(308,115)	-	-	308,115	-
Reserves	(144,181)	(1,842)	98,861	-	(47,162)
	611,759	-	-	-	611,759

## Notes to the Financial Statements (continued)

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

## (c) Comparative Figures (continued)

	As previously reported	Effects of BNM/GP8		As restated
		Recognition and measurement of securities	Reclassification	
	RM '000	RM '000	RM '000	RM '000
<b>Income Statement for the year ended 31 December 2006</b>				
Interest income	-	-	36,670	36,670
Interest expense	(1,288)	-	(1,001)	(2,289)
Other operating income	49,558	485	92,800	142,843
Other operating expenses	(40,452)	-	(96,109)	(136,561)
Revenue	129,403	-	(129,403)	-
Cost of sales	(42,802)	-	42,802	-
Staff costs	(45,312)	-	45,312	-
Depreciation	(4,404)	-	4,404	-
Allowance for losses on loans, advances and financing	-	-	(614)	(614)
Allowance on bad & doubtful accounts on balances due from clients and brokers	-	-	5,139	5,139
Profit before taxation	44,703	485	-	45,188
Taxation	(9,103)	(44)	-	(9,147)
Profit for the year	35,600	441	-	36,041

	As previously reported	Company		As restated
		Recognition and measurement of securities	Reclassification	
	RM '000	RM '000	RM '000	RM '000
<b>Income Statement for the year ended 31 December 2006</b>				
Interest income	-	-	5,601	5,601
Other operating income	9,000	326	6,646	15,972
Other operating expenses	(304)	-	(4,335)	(4,639)
Revenue	10,643	-	(10,643)	-
Staff costs	(2,707)	-	2,707	-
Depreciation	(24)	-	24	-
Profit before taxation	16,608	326	-	16,934
Taxation	(3,438)	-	-	(3,438)
Profit for the year	13,170	326	-	13,496

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

## (c) Comparative Figures (continued)

	Group			
	Retained Profits		AFS Reserve	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Effects as at 1 January of:				
- adoption of fair value accounting on securities held-for-trading	7,003	5,857	-	-
- adoption of fair value accounting on securities AFS	-	-	(14,388)	(5,353)
- transfer of previously recognised net unrealised gain on revaluation of securities AFS to equity	(1,899)	(1,167)	1,899	1,167
- effects of deferred tax	(862)	(889)	3,497	1,172
	4,242	3,801	(8,992)	(3,014)

	Company	
	Retained Profits	
	2007	2006
	RM'000	RM'000
Effects as at 1 January of:		
- adoption of fair value accounting on securities held-for-trading	1,842	1,516
	1,842	1,516

	Group			
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
		(Restated)		(Restated)
Effects on net profit for the year:				
Net profit before changes in accounting policies	140,611	29,794	8,500	13,710
- adoption of fair value accounting on securities held-for-trading	4,662	485	5,514	326
- effects of deferred tax	(1,489)	(44)	(1,489)	-
Net profit for the year	143,784	30,235	12,525	13,496

## Notes to the Financial Statements (continued)

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

**(d) Effects of changes in accounting policies arising from adoption of BNM/GP8 for the financial year ended 31 December 2007.**

	Group		Company	
	Effects of BNM/GP8	Total	Effects of BNM/GP8	Total
	RM'000	RM'000	RM'000	RM'000
	Dr./ (Cr.)	Dr./ (Cr.)	Dr./ (Cr.)	Dr./ (Cr.)
<b>Balance sheet as at 31 December 2007</b>				
Securities held-for-trading	4,662	4,662	5,514	5,514
Securities available-for-sale	(9,688)	(9,688)	-	-
Deferred tax liabilities	(1,489)	(1,489)	(1,489)	(1,489)
Reserves	6,515	6,515	(4,025)	(4,025)
	-	-	-	-

	Group		Company	
	Effects of BNM/GP8	Total	Effects of BNM/GP8	Total
	RM'000	RM'000	RM'000	RM'000
	Dr./ (Cr.)	Dr./ (Cr.)	Dr./ (Cr.)	Dr./ (Cr.)
<b>Income Statement for the financial year ended 31 December 2007</b>				
Other operating income	4,662	4,662	5,514	5,514
Profit before taxation	4,662	4,662	5,514	5,514
Taxation	(1,489)	(1,489)	(1,489)	(1,489)
Profit for the year	3,173	3,173	4,025	4,025
<b>Statement of changes in equity As at 31 December 2007</b>				
Fair value reserve	(9,688)	(9,688)	-	-
Retained profits	3,173	3,173	4,025	4,025
	(6,515)	(6,515)	4,025	4,025

## 47. Changes in Accounting Policies and Prior Year Adjustment (continued)

**(d) Effects of changes in accounting policies arising from adoption of BNM/GP8  
for the financial year ended 31 December 2007. (continued)**

	2007	2006
<b>Effects on earnings per share (sen)</b>		
<b>Group</b>		
Basic/diluted earning per share for profit from continuing operations Before changes in accounting policies/ As previously stated	<b>16.30</b>	5.57
Effects of BNM/GP8	<b>0.52</b>	0.07
After changes in accounting policies/ As restated	<b>16.82</b>	5.64
Basic/diluted earning per share for profit from discontinuing operations	<b>6.25</b>	(0.95)
Basic/diluted earning per share for the year	<b>16.82</b>	4.69

# Analysis of Shareholdings

## As at 21 March 2008

Authorised Share Capital	RM800,000,000
Issued and Fully Paid-Up Share Capital	RM611,759,499
Class of Shares	Ordinary Shares of RM1.00 each
Voting Rights	One vote per share

Size of Holdings	No of Shareholders	% of Shareholders	No of Shares Held	% of Shareholdings
Less than 100	13	0.09	190	0
100 to 1,000	1,153	8.16	1,063,600	0.17
1,001 to 10,000	11,153	78.93	36,827,510	6.02
10,001 to 100,000	1,668	11.81	46,239,500	7.56
100,001 to less than 5% of issued shares	138	0.98	169,149,883	27.65
5% and above of issued shares	4	0.03	358,478,816	58.60
Total	14,129	100	611,759,499	100.00

# List of Thirty Largest Shareholders

As at 21 March 2008

	No of Shares	Percentage (%)
1. CMS Capital Sdn Bhd	153,353,000	25.07
2. Deutsche Asia Pacific Holdings Pte Ltd	101,250,000	16.55
3. YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	53,875,816	8.81
4. CIMB Group Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Dato' Ramli Ismail</i>	50,000,000	8.17
5. CIMSEC Nominess (Tempatan) Sdn Bhd <i>CIMB Bank for YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail</i>	30,500,000	4.99
6. Abdul Aziz Bin Hashim	29,753,712	4.86
7. Aiza Binti Abdul Aziz	26,464,115	4.33
8. ABB Nominee (Tempatan) Sdn Bhd <i>Pledged Securities Account for YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail</i>	16,593,954	2.71
9. AmBank (M) Berhad <i>Pledged Securities Account For Dato' Ramli Ismail</i>	12,500,000	2.04
10. Rescom International Limited	4,092,000	0.67
11. Raja Karib Shah Bin Shahrudin	3,570,100	0.58
12. Dato' Ramli Ismail	3,000,402	0.49
13. YM Tengku Halimah Binti Tengku Salim	2,998,500	0.49
14. HDM Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Toh Pik Chai</i>	2,213,800	0.36
15. Citigroup Nominees (Asing) Sdn Bhd <i>CBNY for DFA Emerging Markets Fund</i>	2,209,100	0.36
16. Lee Kim Poh	1,503,000	0.25
17. HDM Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Hwang Ai Mor</i>	1,500,000	0.25
18. HLB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Hwang Ai Mor</i>	1,155,900	0.19
19. Yeoh Kean Hua	1,152,000	0.19
20. Hii Yu Guan	1,053,000	0.17
21. Securities Asia Limited	1,000,000	0.16
22. Citigroup Nominees (Asing) Sdn Bhd <i>CBNY for DFA Emerging Markets Small Cap Series</i>	890,000	0.15
23. Citigroup Nominees (Asing) Sdn Bhd <i>CBNY for Dimensional Funds II PLC</i>	795,500	0.13
24. Onn Kok Puay (Weng Guopei)	746,700	0.12
25. Johan Enterprise Sdn Bhd	700,000	0.11
26. Ng Tiong Seng Corporation Sdn Bhd	650,000	0.11
27. Asas Dunia Berhad	620,000	0.10
28. Khor Keng Saw @ Khaw Ah Soay	537,700	0.09
29. HLB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Lee Hock Leyong</i>	513,000	0.08
30. HLB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account For Kwan Wen Siong</i>	491,200	0.08
Total	505,682,499	82.66

# Substantial Shareholders

**As at 21 March 2008**

Name of Substantial Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
CMS Capital Sdn Bhd	153,353,000	25.07	-	-
Deutsche Asia Pacific Holdings Pte Ltd	101,250,000	16.55	-	-
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	100,969,770	16.50	43,500*	0.01
Y Bhg Dato' Ramli Ismail	65,500,402	10.71	3,009,000*	0.49

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

# List of Directors' Interest in Shares of the Company

**As at 21 March 2008**

Name of Directors	Direct Interest		Indirect Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail	100,969,770	16.50	43,500*	0.01
Y Bhg Dato' Ramli Ismail	65,500,402	10.71	3,009,000*	0.49
Encik Abdul Aziz Bin Hashim	29,753,712	4.86	26,464,115*	4.33

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

# Notice of Annual General Meeting

## **K & N KENANGA HOLDINGS BERHAD (302859-X)**

(Incorporated in Malaysia)

NOTICE IS HEREBY GIVEN THAT the Fourteenth Annual General Meeting of K & N Kenanga Holdings Berhad will be held at the Ballroom, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 14 May 2008 at 10.00 a.m. to transact the following businesses:-

### AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the year ended 31 December 2007 and the Reports of the Directors and Auditors thereon. **Resolution 1**
2. To approve the payment of a First and Final Dividend of 5% (less 26% income tax) for the year ended 31 December 2007. **Resolution 2**
3. To re-elect the following Directors who retire in accordance with the Articles of Association of the Company and who, being eligible, offered themselves for re-election:-
  - Article 74
  - 3.1 Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain **Resolution 3**
  - 3.2 YM Raja Dato' Seri Abdul Aziz Bin Raja Salim **Resolution 4**
  - 3.3 Mr Charles McLaughlin **Resolution 5**
4. To consider, and if thought fit, to pass the following Resolutions:-
  - 4.1 "THAT, pursuant to Section 129(6) of the Companies Act, 1965, YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail be and is hereby re-appointed Director of the Company and to hold office until the conclusion of the next Annual General Meeting." **Resolution 6**
  - 4.2 "THAT, pursuant to Section 129(6) of the Companies Act, 1965, Encik Abdul Aziz Bin Hashim be and is hereby re-appointed Director of the Company and to hold office until the conclusion of the next Annual General Meeting." **Resolution 7**
5. To approve Directors' fees of RM320,000 in respect of the year ended 31 December 2007. **Resolution 8**
6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 9**
7. To transact any other ordinary business of which due notice shall have been given.

## NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN THAT, subject to the approval of the shareholders, a First and Final Dividend of 5% (less 26% income tax) in respect of the financial year ended 31 December 2007 will be paid on 3 June 2008 to depositors registered in the Records of Depositors at the close of business on 22 May 2008.

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

1. Shares transferred to the Depositor's Securities Account before 4.00 p.m on 22 May 2008 in respect of ordinary transfers; and
2. Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

YAP PIK YOON  
Company Secretary

Kuala Lumpur  
22 April 2008

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### Notes

- (a) A member entitled to attend and vote at the Meeting is entitled to appoint up to two (2) proxies to attend and vote on his behalf. A proxy may but need not be a member of the Company and Section 149(1) of the Companies Act, 1965 shall not apply. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportions of his holding to be represented by each proxy.
- (b) Where a member is an Authorised Nominee, as defined under Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- (c) In the case of a corporate body, the proxy appointed must be in accordance with the Articles of Association and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney of the corporation duly authorised.
- (d) The Form of Proxy must be deposited at the Company's Registered Office at 8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.
- (e) All alterations in the Form of Proxy must be initialled.

# Statement Accompanying Notice of Fourteenth Annual General Meeting

1. The Directors who are standing for re-appointment and re-election at the Fourteenth Annual General Meeting of the Company are:-

Section 129 of the Companies Act, 1965

- (a) YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail
- (b) Encik Abdul Aziz Bin Hashim

Article 74 of the Company's Articles of Association

- (a) Y Bhg Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain
- (b) YM Raja Dato' Seri Abdul Aziz Bin Raja Salim
- (c) Mr Charles McLaughlin

Details of the Directors seeking re-appointment and re-election are set out in the Directors' profiles' section of this Annual Report. Their shareholdings, where applicable, in the Company are set out on page 133 of this Annual Report.

2. Details of attendance of Directors at Board Meetings

Five (5) Board Meetings were held during the financial year ended 31 December 2007.

Details of attendance of the Directors at the Board Meetings are set out on page 27 of this Annual Report.

3. Date, Time and Place of the Fourteenth Annual General Meeting

Date and Time : 14 May 2008 at 10.00 a.m.

Place : Ballroom, Hotel Equatorial  
Jalan Sultan Ismail  
50250 Kuala Lumpur

# Proxy Form



**K & N KENANGA HOLDINGS BERHAD**

Company No. 302859-X

Incorporated in Malaysia

No. of shares

I/ We ..... ( IN BLOCK LETTERS )

of .....

being a member of **K & N Kenanga Holdings Berhad** hereby appoint .....

of .....

or falling him/ her .....

of .....

as my/our proxy to vote for me/us and on my/our behalf at the Fourteenth Annual General Meeting of the Company to be held at the Ballroom, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 14 May 2008 at 10.00 a.m. and at any adjournment thereof.

My/Our proxy is to vote as indicated below: -

No.	Resolution	For	Against
<b>ORDINARY BUSINESS</b>			
1	Adoption of Audited Financial Statements and Reports of Directors and Auditors. <b>Resolution 1</b>		
2	Declaration of a First and Final Dividend. <b>Resolution 2</b>		
3	Re-election of the following Directors pursuant to:-  <b>Article 74</b> 3.1 Tan Sri Dato' Mohd. Ibrahim Bin Mohd. Zain <b>Resolution 3</b> 3.2 YM Raja Dato' Seri Abdul Aziz Bin Raja Salim <b>Resolution 4</b> 3.3 Mr. Charles McLaughlin <b>Resolution 5</b>		
4	Re-appointment of YM Tengku Dato' Paduka Noor Zakiah Binti Tengku Ismail pursuant to Section 129(6) of the Companies Act, 1965. <b>Resolution 6</b>		
5	Re-appointment of Encik Abdul Aziz Bin Hashim pursuant to Section 129(6) of the Companies Act, 1965. <b>Resolution 7</b>		
6	Payment of Directors' fees. <b>Resolution 8</b>		
7	Re-appointment of Messrs Ernst & Young as Auditors. <b>Resolution 9</b>		

(Please indicate with "X" how you wish to cast your vote)

Date \_\_\_\_\_ 2008.

\_\_\_\_\_  
Signature/ Seal

## Notes

- A member entitled to attend and vote at the Meeting is entitled to appoint up to two (2) proxies to attend and vote on his behalf. A proxy may but need not be a member of the Company and Section 149(1) of the Companies Act, 1965 shall not apply. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportions of his holding to be represented by each proxy.
- Where a member is an Authorised Nominee, as defined under Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- In the case of a corporate body, the proxy appointed must be in accordance with the Articles of Association and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney of the corporation duly authorised.
- The Form of Proxy must be deposited at the Company's Registered Office at 8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.
- All alteration in the Form of Proxy must be initialled.

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**STAMP**

**Company Secretary**

K & N Kenanga Holdings Berhad  
8th Floor  
Kenanga International  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

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**KENANGA**

**K & N KENANGA HOLDINGS BERHAD**

Company No. 302859-X

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250