

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Note	The Group		The Company	
		As at 31/03/2018 RM'000	As at 30/06/2017 RM'000	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
ASSETS					
Cash and short term funds		174,378	267,462	210	490
Securities purchased under resale agreement		35,618	35,123	-	-
Financial assets held-for-trading	11	945,314	1,102,647	-	-
Financial investments available- for-sale	12	1,279,850	1,173,978	155,903	140,168
Financial investments held-to-maturity	13	839,535	909,215	-	-
Derivative financial assets	19	27,043	19,916	-	-
Loans and advances	14	253,033	236,592	-	-
Clients' and brokers' balances	15	249,940	270,967	-	-
Other assets	16	54,770	54,772	148	615
Statutory deposits with Bank Negara Malaysia		42,357	58,100	-	-
Tax recoverable		252	215	251	213
Investment in subsidiary companies		-	-	316,574	320,054
Deferred tax assets		97,903	90,948	-	-
Property and equipment		10,190	5,737	-	-
Goodwill		33,059	33,059	-	-
Other intangible assets		4,349	5,255	-	-
TOTAL ASSETS		4,047,591	4,263,986	473,086	461,540
LIABILITIES					
Deposits from customers	17	714,061	648,867	-	-
Deposits and placements of banks and other financial institutions	18	2,003,774	2,247,733	-	-
Obligations on securities sold under repurchase agreements		99,162	149,111	-	-
Derivative financial liabilities	19	54,804	47,959	-	-
Clients' and brokers' balances		237,614	271,738	-	-
Other liabilities	20	127,055	102,536	435	613
Current tax liabilities		681	473	-	-
Subordinated obligations	21	50,946	50,262	-	-
TOTAL LIABILITIES		3,288,097	3,518,679	435	613

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

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(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2018

	The Group		The Company	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
EQUITY				
Share capital	246,896	246,896	246,896	246,896
Reserves	518,629	504,442	231,673	219,949
Treasury shares for ESOS scheme	(6,031)	(6,031)	(5,918)	(5,918)
TOTAL EQUITY	759,494	745,307	472,651	460,927
TOTAL LIABILITIES AND EQUITY	4,047,591	4,263,986	473,086	461,540
COMMITMENTS AND CONTINGENCIES	9,403,219	7,931,230	-	-
Net assets per share attributable to ordinary equity holder of the Company (RM)	3.15	3.09		

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Current quarter ended 31/03/2018	Last year's quarter ended 31/03/2017	Current year ended 31/03/2018	Last year's ended 31/03/2017
Note	RM'000	RM'000	RM'000	RM'000
The Group				
Interest income	22	36,671	37,250	112,636
Interest expense	23	(26,072)	(26,904)	(80,982)
Net interest income		10,599	10,346	31,654
Non-interest income	24	36,063	44,366	113,214
Net income		46,662	54,712	144,868
Overhead expenses	25	(26,382)	(29,072)	(87,004)
Operating profit before allowances		20,280	25,640	57,864
Write-back of/(allowance for) impairment on loans and advances and other losses	26	372	124	156
Profit before taxation		20,652	25,764	58,020
Taxation		709	276	4,070
Net profit for the period		21,361	26,040	62,090
Earnings per share (sen)				
- Basic		8.9	10.8	25.7
- Diluted		8.9	10.8	25.7

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group				
Net profit for the period	21,361	26,040	62,090	69,143
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale				
- Unrealised net (loss)/income on revaluation of financial investments available-for-sale	(864)	2,260	(1,581)	(2,367)
- Net transfer to income statements on disposal of financial investments available-for-sale	(55)	(979)	(1,143)	(4,200)
Income tax relating to net fair value changes on financial investments available-for-sale	225	(297)	665	1,344
Currency translation differences in respect of foreign operation	-	-	-	16
Other comprehensive (expense)/income for the period, net of tax	(694)	984	(2,059)	(5,207)
Total comprehensive income for the period, net of tax	20,667	27,024	60,031	63,936

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Current quarter ended 31/03/2018	Last year's quarter ended 31/03/2017	Current year ended 31/03/2018	Last year's ended 31/03/2017	
Note	RM'000	RM'000	RM'000	RM'000	
The Company					
Interest income	22	4	285	28	294
Interest expense	23	-	-	-	-
Net interest income		4	285	28	294
Non-interest income	24	1,415	840	59,059	55,289
Net income		1,419	1,125	59,087	55,583
Overhead expenses	25	(398)	(435)	(1,465)	(1,639)
Operating profit before allowances		1,021	690	57,622	53,944
Allowance for impairment on other losses	26	-	-	-	-
Profit before taxation		1,021	690	57,622	53,944
Taxation		(48)	(89)	(69)	(117)
Net profit for the period		973	601	57,553	53,827
Earnings per share (sen)					
- Basic		0.4	0.2	23.8	22.3
- Diluted		0.4	0.2	23.8	22.3

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Company				
Net profit for the period	973	601	57,553	53,827
Other comprehensive income:				
Items that will be reclassified subsequently to profit or loss				
Net fair value changes on financial investments available-for-sale				
- Unrealised net gain on revaluation of financial investments available-for-sale	9	7	30	13
- Net transfer to income statements on disposal of financial investments available-for-sale	5	33	5	33
Income tax relating to net fair value changes on financial investments available-for-sale	-	-	-	-
Other comprehensive income for the period, net of tax	14	40	35	46
Total comprehensive income for the period, net of tax	987	641	57,588	53,873

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Attributable to owners of the parent								
	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	General Reserves RM'000	Statutory Reserves RM'000	Regulatory Reserves RM'000	Fair Value Reserve RM'000	Exchange fluctuation Reserve RM'000	Retained Profits RM'000	Total RM'000
The Group									
At 1 July 2017	246,896	(6,031)	543	-	2,504	1,422	-	499,973	745,307
Net profit for the period	-	-	-	-	-	-	-	62,090	62,090
Other comprehensive expense, net of tax	-	-	-	-	-	(2,059)	-	-	(2,059)
Total comprehensive (expense)/ income	-	-	-	-	-	(2,059)	-	62,090	60,031
Transfer from regulatory reserve	-	-	-	-	(40)	-	-	40	-
Dividend paid	-	-	-	-	-	-	-	(45,844)	(45,844)
At 31 March 2018	246,896	(6,031)	543	-	2,464	(637)	-	516,259	759,494
At 1 July 2016	246,896	(6,031)	543	113,482	3,563	6,623	(16)	335,301	700,361
Net profit for the period	-	-	-	-	-	-	-	69,143	69,143
Other comprehensive (expense)/income, net of tax	-	-	-	-	-	(5,223)	16	-	(5,207)
Total comprehensive (expense)/income	-	-	-	-	-	(5,223)	16	69,143	63,936
Transfer from regulatory reserve	-	-	-	-	(489)	-	-	489	-
Dividend paid	-	-	-	-	-	-	-	(28,954)	(28,954)
At 31 March 2017	246,896	(6,031)	543	113,482	3,074	1,400	-	375,979	735,343

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number: 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	Non-Distributable			Distributable	
	Share Capital RM'000	Treasury Shares for ESOS Scheme RM'000	Fair Value Reserve RM'000	Retained Profits RM'000	Total RM'000
The Company					
At 1 July 2017	246,896	(5,918)	(14)	219,963	460,927
Net profit for the period	-	-	-	57,553	57,553
Other comprehensive income, net of tax	-	-	35	-	35
Total comprehensive income	-	-	35	57,553	57,588
Dividend paid	-	-	-	(45,864)	(45,864)
At 31 March 2018	246,896	(5,918)	21	231,652	472,651
At 1 July 2016	246,896	(5,918)	(33)	189,315	430,260
Net profit for the period	-	-	-	53,827	53,827
Other comprehensive income, net of tax	-	-	46	-	46
Total comprehensive income	-	-	46	53,827	53,873
Dividend paid	-	-	-	(28,967)	(28,967)
At 31 March 2017	246,896	(5,918)	13	214,175	455,166

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	The Group	
	31/03/2018	31/03/2017
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	58,020	65,669
<u>Adjustments for non-cash items:</u>		
- Depreciation of property and equipment	1,417	1,367
- Amortisation of intangible assets	2,109	2,096
- Loss on liquidation of subsidiaries	-	7
- Gain on disposal of property and equipment	-	(102)
- Allowance for/(write-back of) impairment for losses on loans and advances	246	(466)
- (Write-back of)/allowance for impairment for losses on clients' and brokers' balances	(171)	187
- (Write-back of)/allowance for losses on fee income receivables	(231)	806
- Net unrealised loss/(gain) on revaluation of:		
- Financial assets held-for-trading	20,883	1,368
- Derivative financial instruments	521	(9,503)
- Interest income from:		
- Financial assets held-for-trading	(26,630)	(32,730)
- Financial investments available-for-sale	(28,220)	(28,854)
- Financial investments held-to-maturity	(24,720)	(19,548)
- Derivative financial instruments	(6,571)	(5,996)
- Interest expense from derivative financial instruments	9,672	11,533
- Interest expense from subordinated obligations	2,005	2,013
- Dividend income from:		
- Financial assets held-for-trading	(2,924)	(1,859)
- Financial investments available-for-sale	(5,591)	(4,095)
	(58,205)	(83,776)
Operating loss before changes in working capital	(185)	(18,107)
<u>Changes in working capital:</u>		
- Securities purchased under resale agreements	(495)	(35,548)
- Financial assets held-for-trading	133,710	448,504
- Derivative financial instruments	1,732	17
- Loans and advances	(16,687)	79,583
- Clients' and brokers' balances	21,198	(245,999)
- Other assets	233	(3,566)
- Statutory deposits with Bank Negara Malaysia	15,743	(24,307)
Net changes in operating assets	155,434	218,684
- Deposits from customers	65,194	(268,804)
- Deposits and placements of banks and other financial institutions	(243,959)	441,952
- Obligations on securities sold under repurchase agreements	(49,949)	-
- Clients' and brokers' balances	(34,124)	187,776
- Other liabilities	24,520	16,025
Net changes in operating liabilities	(238,318)	376,949
Cash (used in)/generated from operating activities	(83,069)	577,526

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	The Group	
	31/03/2018	31/03/2017
	RM'000	RM'000
Cash (used in)/generated from operating activities	(83,069)	577,526
Net income tax paid	(2,050)	(875)
Net cash (used in)/generated from operating activities	(85,119)	<u>576,651</u>
<u>Cash flows from investing activities</u>		
Net (purchase)/disposal of:		
- Financial investments available-for-sale	(107,034)	(251,502)
- Financial investments held-to-maturity	65,870	(370,988)
Dividend received from:		
- Financial assets held-for-trading	2,924	1,859
- Financial investments available-for-sale	5,591	4,095
Proceeds from liquidation of subsidiaries	-	157
Interest received from financial assets held-for-trading, financial investments available-for-sale, financial investments held-to-maturity and derivative financial instruments	89,059	92,311
Interest expenses paid on derivative financial instruments	(10,137)	(10,663)
Proceeds from disposal of property and equipment	-	98
Purchase of property and equipment	(5,870)	(666)
Purchase of intangible assets	(1,203)	(1,892)
Net cash generated from/(used in) investing activities	39,200	(537,191)
<u>Cash flows from financing activities</u>		
Interest paid on subordinated obligations	(1,321)	(1,343)
Dividend paid	(45,844)	(28,954)
Net cash used in financing activities	(47,165)	(30,297)
Net changes in cash and cash equivalents during the financial period	(93,084)	9,163
Effect of exchange rate changes	-	16
Cash and cash equivalents at beginning of the financial period	267,462	336,681
Cash and cash equivalents at end of the financial period	174,378	<u>345,860</u>
Cash and cash equivalents comprise:		
Cash and short term funds	174,378	345,860
Deposit and placements with other financial institutions	-	-
	174,378	<u>345,860</u>

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD
(Company Number 213006-U)
CONDENSED FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	The Company	
	31/03/2018	31/03/2017
	RM'000	RM'000
<u>Cash flows from operating activities</u>		
Profit before taxation	57,622	53,944
<u>Adjustments for non-cash items:</u>		
- Interest income	(28)	(294)
- Gain on liquidation of a subsidiary	(20)	-
- Dividend income from:		
- Financial investments available-for-sale	(3,942)	(2,860)
- Subsidiary companies	(55,000)	(52,300)
	<u>(58,990)</u>	<u>(55,454)</u>
Operating loss before changes in working capital	(1,368)	(1,510)
Decrease in other assets	1,828	32
Decrease in other liabilities	(178)	(216)
Cash generated from/(used in) operating activities	282	(1,694)
Net income tax paid	(107)	(82)
Interest received	28	294
Net cash generated from/(used in) operating activities	203	(1,482)
<u>Cash flows from investing activities</u>		
Net purchase of financial investments available-for-sale	(15,700)	(25,367)
Dividend received from:		
- Financial investments available-for-sale	2,581	2,860
- Subsidiary companies	55,000	52,300
Proceed from liquidation of a subsidiary	3,500	-
Net cash generated from investing activities	45,381	29,793
<u>Cash flows from financing activities</u>		
Dividend paid	(45,864)	(28,967)
Net cash used in financing activities	(45,864)	(28,967)
Net changes in cash and cash equivalents during the financial period	(280)	(656)
Cash and cash equivalents at beginning of the financial period	490	1,065
Cash and cash equivalents at end of the financial period	210	409
Cash and cash equivalents comprise:		
Cash and short term funds	210	409

The unaudited condensed financial statements should be read in conjunction with the audited financial statements of the Group and the Company for the financial year ended 30 June 2017.

HONG LEONG CAPITAL BERHAD ("HLCB" or "Company")
(formerly known as HLG Capital Berhad)
(Company Number 213006-U)
NOTES TO INTERIM FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

Explanatory Notes pursuant to the Malaysian Financial Reporting Standard 134 ("MFRS 134") and Guidelines on Financial Reporting issued by Bank Negara Malaysia ("BNM")

1. Basis of preparation

The unaudited condensed financial statements for the financial period ended 31 March 2018 have been prepared under the historical cost convention, as modified by the revaluation of financial investments available-for-sale and financial assets/financial liabilities at fair value through profit or loss (including derivative financial instruments).

The unaudited condensed financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standard Board ("MASB") and paragraph 9.22 of Bursa Malaysia Securities Berhad's Listing Requirements and should be read in conjunction with the audited annual financial statements for the Group and the Company for the financial year ended 30 June 2017. The explanatory notes attached to the unaudited condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and the Company since the financial year ended 30 June 2017.

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2017 and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2017:

- Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative"
- Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses"

The adoption of these amendments did not have any material financial impact on the current period or any prior period and is not likely to affect future periods.

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

2. Auditors' report on preceding annual financial statements

The auditors' report on the audited financial statements for the financial year ended 30 June 2017 was not qualified.

3. Comments about seasonal or cyclical factors

The operations of the Group and the Company were not materially affected by any seasonal or cyclical factors during the financial quarter ended 31 March 2018.

4. Unusual items due to their nature, size or incidence

The were no unusual items affecting the assets, liabilities, equities, net income or cash flows of the Group and the Company during the financial quarter ended 31 March 2018.

5. Change in estimate

The were no material changes in estimate of amount reported in prior financial year that have a material effect in the financial quarter ended 31 March 2018.

6. Debt and Equity Securities

There were no new issuance and repayment of debt and equity securities, share-buy-back, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period ended 31 March 2018, other than as mentioned below.

Purchase of shares pursuant to ESOS

In accordance with MFRS 132 "Financial instruments: Presentation and Disclosure", the shares purchased for the benefit of the ESOS holdings are recorded as "Treasury Shares for ESOS Scheme" in equity on the statements of financial position.

Total shares held by ESOS Trust comprise 5,612,700 (2017: 5,612,700) shares in the Group costing RM6,031,241 (2017: RM6,031,241) inclusive of transaction costs, as at 31 December 2017.

7. Dividends paid

A final single-tier dividend of 19.0 sen per share amounting to RM45.8 million in respect of the financial year ended 30 June 2017, was paid on 17 November 2017.

8. Valuations of property, plant and equipment

No valuations of property, plant and equipment were carried out for the financial quarter ended 31 March 2018.

9. Significant events

Public shareholding spread

The Company currently does not meet the requirement as set out in paragraph 8.02(1) of the Listing Requirements which states that a listed issuer must ensure that at least 25% of its total listed shares (excluding treasury shares) are in the hands of public shareholders.

The public shareholding spread of the Company as at 30 March 2018 was 18.67%.

As announced by the Company on 18 March 2015, Bursa Malaysia Securities Berhad had imposed a suspension on the trading of HLCB's shares with effect from 26 March 2015. The suspension will only be uplifted upon full compliance of the public shareholding spread in accordance with paragraph 8.02(1) of the Listing Requirements.

The Company has not identified a satisfactory plan to address the non-compliance with the 25% public shareholding spread requirement.

As announced previously, the Company will continue to discuss with its majority shareholder, Hong Leong Financial Group Berhad, options to comply with the shareholding spread requirement.

10. Subsequent events

There were no material events subsequent to the end of the reporting quarter that require disclosure or adjustments to the unaudited interim financial statements.

HLCB Q3 (31.03.18)

11. Financial assets held-for-trading

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Money market instruments		
Malaysian Government Investment Issues	-	30,561
Negotiable instruments of deposits	703,203	831,596
Bankers' acceptances	49,855	-
	<u>753,058</u>	<u>862,157</u>
Quoted securities		
In Malaysia:		
Shares	25,742	35,077
Unit trust investment	3,294	6,470
	<u>29,036</u>	<u>41,547</u>
Unquoted securities		
Foreign currency bonds	15,741	-
Private and Islamic debt securities	147,479	198,943
	<u>163,220</u>	<u>198,943</u>
	<u>945,314</u>	<u>1,102,647</u>

12. Financial investments available-for-sale

	The Group		The Company	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Money market instruments				
Malaysian Government Securities	30,756	30,378	-	-
Malaysian Government Investment Issues	101,492	60,896	-	-
Cagamas bonds	55,693	65,442	-	-
	<u>187,941</u>	<u>156,716</u>	<u>-</u>	<u>-</u>
Quoted securities				
In Malaysia:				
Unit trust investment	214,511	201,063	155,903	140,168
Unquoted securities				
Shares	245	245	-	-
Foreign currency bonds	80,407	74,832	-	-
Private and Islamic debt securities	796,746	741,122	-	-
	<u>877,398</u>	<u>816,199</u>	<u>-</u>	<u>-</u>
	<u>1,279,850</u>	<u>1,173,978</u>	<u>155,903</u>	<u>140,168</u>

HLCB Q3 (31.03.18)**13. Financial investments held-to-maturity**

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Money market instruments		
Malaysian Government Securities	181,457	211,031
Malaysian Government Investment Issues	515,443	518,643
	696,900	729,674
Unquoted securities		
Foreign currency bonds	56,655	93,757
Private and Islamic debt securities	85,980	85,784
	142,635	179,541
	839,535	909,215

14. Loans and advances

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Term loan financing	34,321	25,685
Share margin financing	218,876	210,707
Staff loans	60	64
Other loans	472	586
Gross loans and advances	253,729	237,042
Allowance for impaired loans and advances:		
- individual assessment allowance	(116)	(110)
- collective assessment allowance	(580)	(340)
Net loans and advances	253,033	236,592

14a. By type of customer

Domestic business enterprises		
- Small and medium enterprises	9,818	110
- Others	126,199	120,574
Individuals	109,699	108,535
Foreign entities	8,013	7,823
Gross loans and advances	253,729	237,042

HLCB Q3 (31.03.18)

14. Loans and advances (continued)

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
14b. <u>By interest rate sensitivity</u>		
Fixed rate		
- Staff housing loans	60	64
- Other fixed rate loan	472	586
Variable rate		
- Cost plus	253,197	236,392
Gross loans and advances	<u>253,729</u>	<u>237,042</u>
14c. <u>By residual contractual maturity</u>		
Maturity within one year	233,783	225,988
More than one year to three years	19,886	10,990
More than five years	60	64
Gross loans and advances	<u>253,729</u>	<u>237,042</u>
14d. <u>By geographical distribution</u>		
Malaysia	<u>253,729</u>	<u>237,042</u>
14e. <u>By economic purpose</u>		
Purchase of securities	232,357	210,707
Working capital	20,840	25,685
Purchase of transport vehicles	117	110
Purchase of landed properties	415	540
Gross loans and advances	<u>253,729</u>	<u>237,042</u>
14f. Movements in impaired loans and advances ("impaired loans") are as follows:		
At 1 July	11,576	574
Impaired during the period/year	10	11,002
Amount written-back during the period/year	(4,710)	-
At 31 March/30 June	<u>6,876</u>	<u>11,576</u>
 % of impaired loans to total loans and advances, net of individual assessment allowance	 <u>2.7%</u>	 <u>4.9%</u>
14g. <u>Impaired loans and advances by geographical distribution</u>		
Malaysia	<u>6,876</u>	<u>11,576</u>
14h. <u>Impaired loans and advances by economic purpose</u>		
Purchase of transport vehicles	116	110
Purchase of landed properties	355	476
Working capital	6,405	10,990
Gross impaired loans and advances	<u>6,876</u>	<u>11,576</u>

HLCB Q3 (31.03.18)

14. Loans and advances (continued)

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
14i. Movement in the allowance for loss on loans and advances are as follows:		
<u>Individual assessment allowance</u>		
At 1 July	110	100
Allowance made during the period/year	6	10
At 31 March/30 June	<u>116</u>	<u>110</u>
<u>Collective assessment allowance</u>		
At 1 July	340	914
Allowance made/(written-back) during the period/year	240	(574)
At 31 March/30 June	<u>580</u>	<u>340</u>

15. Clients' and brokers' balances

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Performing accounts	247,118	270,148
Impaired accounts	3,096	1,264
	<u>250,214</u>	<u>271,412</u>
Less: Individual assessment allowance	(244)	(417)
Collective assessment allowance	(30)	(28)
	<u>249,940</u>	<u>270,967</u>

16. Other assets

	The Group		The Company	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Amount due from subsidiary companies	-	-	94	572
Deposits and prepayments	9,435	5,280	50	43
Fee income receivable	3,170	16,076	-	-
Collaterals pledged for derivative transactions	9,046	22,531	-	-
Other receivables	32,239	10,373	4	-
Manager's stocks and consumables	880	512	-	-
	<u>54,770</u>	<u>54,772</u>	<u>148</u>	<u>615</u>

HLCB Q3 (31.03.18)

17. Deposits from customers

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
17a. <u>By type of deposits</u>		
Fixed deposits	714,061	648,867
17b. <u>By type of customer</u>		
Government and statutory bodies	528,223	456,337
Business enterprises	160,691	171,984
Individuals	25,147	20,546
	714,061	648,867
17c. The maturity structure of fixed deposits are as follows:		
Due within:		
- six months	712,952	642,665
- six months to one year	1,109	6,202
	714,061	648,867

18. Deposits and placements of banks and other financial institutions

	The Group	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Licensed banks	192,051	778,053
Licensed investment banks	70,013	50,004
Other financial institutions	1,741,710	1,419,676
	2,003,774	2,247,733

HLCB Q3 (31.03.18)

19. Derivative financial assets/liabilities

The Group	Contract or underlying principal amount	Positive fair value	Negative fair value
31/03/2018	RM'000	RM'000	RM'000
Interest rate related contracts:			
- Interest rate swaps	4,845,000	9,103	(13,827)
- Futures	122,505	-	(225)
- Cross currency swaps	77,290	7,928	-
Foreign exchange related contracts:			
- Foreign currency swaps	3,589,569	9,904	(39,096)
- Foreign currency forwards	134,704	-	(1,656)
- Foreign currency spot	3,915	3	-
Equity related contracts:			
- Call option	7,000	105	-
	8,779,983	27,043	(54,804)
30/06/2017			
Interest rate related contracts:			
- Interest rate swaps	5,015,000	12,806	(23,881)
- Futures	322,498	337	-
- Cross currency swaps	171,770	83	(16,724)
Foreign exchange related contracts:			
- Foreign currency swaps	1,520,828	5,883	(7,345)
- Foreign currency forwards	73,399	171	(6)
- Foreign currency spot	17,735	1	(3)
Equity related contracts:			
- Call option	7,000	635	-
	7,128,230	19,916	(47,959)

20. Other liabilities

	The Group		The Company	
	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000	As at 31/03/2018 RM'000	As at 30/06/2017 RM'000
Amount due to holding company	4	-	-	-
Amount due to related companies	15	118	-	-
Remisiers' trust deposits	13,975	13,786	-	-
Other payables and accrued liabilities	112,855	88,430	435	613
Post employment benefits obligation				
- defined contribution plan	206	202	-	-
	127,055	102,536	435	613

21. Subordinated obligations

	The Group	
	As at	As at
	31/03/2018	30/06/2017
	RM'000	RM'000
RM50.0 million Tier 2 subordinated notes, at par	50,000	50,000
Add: Interest payable	1,060	392
	51,060	50,392
Less: Unamortised discounts	(114)	(130)
	50,946	50,262

On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB") had completed the first issuance of RM50.0 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50.0 million Sub-Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub-Notes shall be subject to the approval of BNM.

The Sub-Notes constitute unsecured liabilities of HLIB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLIB in accordance with the terms and conditions of the issue, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub-Notes. The Sub-Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLIB.

HLCB Q3 (31.03.18)**22. Interest income**

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group				
Loan and advances	3,795	4,519	11,113	15,285
Money at call and deposits placements with banks and other financial institutions	1,158	750	3,243	2,015
Financial assets held-for-trading	7,709	8,041	26,630	32,730
Financial investments available-for-sale	9,749	11,237	28,220	28,854
Financial investments held-to-maturity	8,065	7,817	24,720	19,548
Derivative financial instruments	2,064	2,030	6,571	5,996
Others	4,131	2,856	12,139	6,749
Total interest income	36,671	37,250	112,636	111,177
The Company				
Money at call and deposits placements with banks and other financial institutions	4	285	28	294

23. Interest expense

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group				
Deposits and placements of banks and other financial institutions	7,746	8,327	24,234	21,361
Deposits from customers	13,261	14,017	40,733	43,304
Derivative financial instruments	2,889	3,897	9,672	11,533
Subordinated notes	659	659	2,005	2,013
Others	1,517	4	4,338	143
Total interest expense	26,072	26,904	80,982	78,354

24. Non-interest income

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group				
(a) Fee income:				
Fee on loans and advances	-	266	418	1,435
Arranger fees	170	784	4,185	5,680
Placement fees	675	-	1,468	3,542
Corporate advisory fees	1,682	582	4,028	4,395
Brokerage commissions	19,882	17,809	50,279	42,035
Commission from futures contracts	293	182	683	468
Unit trust fee income	8,945	6,670	24,859	19,392
Other fee income	957	9,724	14,507	11,975
	32,604	37,718	100,427	90,623
(b) Net income from securities:				
Net realised gain/(loss) arising from sale of:				
- Financial assets held-for-trading	11,597	(5,661)	23,756	2,136
- Financial investments available-for-sale	(183)	314	1,078	4,956
- Derivative financial instruments	(14,823)	1,872	(49,466)	21,544
Net unrealised (loss)/gain on revaluation of:				
- Financial assets held-for-trading	(11,138)	8,328	(20,883)	(1,368)
- Derivative financial instruments	(16,056)	(5,553)	(521)	9,503
Dividend income from:				
- Financial assets held-for-trading	1,131	1,318	2,924	1,859
- Financial investments available-for-sale	1,884	1,305	5,591	4,095
	(27,588)	2,038	(37,521)	42,840
(c) Other income				
Gain on disposal of property and equipment	-	-	-	102
Loss on liquidation of a subsidiary	-	-	-	(7)
Foreign exchange gain/(loss)	30,984	4,461	50,130	(16,187)
Other non-operating income	63	149	178	317
	31,047	4,610	50,308	(15,775)
Total non-interest income	36,063	44,366	113,214	117,688

HLCB Q3 (31.03.18)

24. Non-interest income (continued)

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Company				
(a) Net income from securities:				
Net realised loss arising from sale of:				
- Financial investments available-for-sale	-	(74)	-	(86)
Dividend income from:				
- Financial investments available-for-sale	1,361	820	3,942	2,860
- Subsidiary companies	-	-	55,000	52,300
	1,361	746	58,942	55,074
(b) Other income				
Gain on liquidation of a subsidiary	20	-	20	-
Foreign exchange gain	-	-	-	11
Other income	34	94	97	204
	54	94	117	215
	1,415	840	59,059	55,289

25. Overhead expenses

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group				
Personnel costs				
- Salaries, bonuses and allowances	12,066	4,300	45,964	33,952
- Others	3,321	13,827	9,834	19,659
	15,387	18,127	55,798	53,611
Establishment costs				
- Depreciation of property and equipment	547	481	1,417	1,367
- Amortisation of intangible assets	716	684	2,109	2,096
- Rental of premises	1,184	1,120	3,854	3,504
- Information technology expenses	1,598	1,663	4,666	4,705
- Others	731	571	2,008	2,032
	4,776	4,519	14,054	13,704
Marketing expenses				
- Advertisement and publicity	224	169	362	407
- Entertainment and business improvement	661	747	1,614	1,753
- Others	116	178	327	379
	1,001	1,094	2,303	2,539

HLCB Q3 (31.03.18)

25. Overhead expenses (continued)

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group (continued)				
Administration and general expenses				
- Management fees	1,093	1,110	2,990	3,072
- Communication expenses	460	359	1,242	1,001
- Auditors' remuneration				
- Statutory audit	105	96	314	288
- Regulatory related fee	10	3	27	8
- Legal and professional fees	826	1,303	2,631	3,447
- Others	2,724	2,461	7,645	7,145
	5,218	5,332	14,849	14,961
	26,382	29,072	87,004	84,815
The Company				
Personnel costs				
- Salaries, bonuses and allowances	-	51	90	161
- Others	88	90	303	177
	88	141	393	338
Establishment costs				
- Information technology expenses	17	17	17	19
- Others	21	(13)	54	41
	38	4	71	60
Marketing expenses				
- Others	-	1	31	34
	-	1	31	34
Administration and general expenses				
- Management fees	112	113	323	280
- Communication expenses	2	3	7	8
- Auditors' remuneration				
- Statutory audit	21	15	64	45
- Regulatory related fee	10	3	27	8
- Legal and professional fees	15	3	46	361
- Others	112	152	503	505
	272	289	970	1,207
	398	435	1,465	1,639

HLCB Q3 (31.03.18)

26. Write-back of/(allowance for) impairment on loans and advances and other losses

	Current quarter ended 31/03/2018 RM'000	Last year's quarter ended 31/03/2017 RM'000	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000
The Group				
(Allowance for)/write-back of losses on impaired loans and advances:				
Individual assessment allowance				
- made during the period	(4)	-	(6)	-
Collective assessment allowance written-back/(made) during the period	103	229	(240)	466
(Allowance for)/write-back of losses on clients' and brokers' balances:				
Individual assessment allowance				
- made during the period	(60)	12	(96)	(282)
- written-back during the period	128	11	269	94
Collective assessment allowance written-back/(made) during the period	22	4	(2)	1
Bad debts on clients' and brokers' balances				
- recovered	-	500	-	500
Write-back of/(allowance for) losses on fee income receivables:				
Individual assessment allowance				
- made during the year	85	(632)	(127)	(806)
- written-back during the period	98	-	358	-
	372	124	156	(27)

27. Commitments and contingencies

	As at 31/03/2018 Principal Amount RM'000	As at 30/06/2017 Principal Amount RM'000
The Group		
Commitments and contingent liabilities		
Direct Credit Substitutes	1,000	1,000
Obligations under underwriting agreement	-	130,000
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	3,555	10,352
Other commitments, such as formal standby facilities and credit lines		
- maturity less than one year	-	326
- maturity over one year	138	-
Any commitments that are unconditionally cancelled at any time by the bank without prior notice		
- maturity less than one year	618,543	661,322
	623,236	803,000
Derivative financial instruments		
Interest rate related contracts:		
- One year or less	1,452,505	1,778,383
- Over one year to five years	3,377,290	3,485,885
- Over five years	215,000	245,000
Foreign exchange related contracts		
- One year or less	3,728,188	1,611,962
Equity related contracts		
- Over one year to five years	7,000	7,000
	8,779,983	7,128,230
	9,403,219	7,931,230

28. Fair value of financial instruments

Determination of fair value and fair value hierarchy

The Group and the Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active market where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities, unit trust investments and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2.

In cases where quoted prices are generally not available, the Group then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Group's exposure to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Group's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Group 31.03.2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading	29,036	916,278	-	945,314
- Money market instruments	-	753,058	-	753,058
- Quoted securities	29,036	-	-	29,036
- Unquoted securities	-	163,220	-	163,220
Financial investments available-for-sale	214,511	1,065,094	245	1,279,850
- Money market instruments	-	187,941	-	187,941
- Quoted securities	214,511	-	-	214,511
- Unquoted securities	-	877,153	245	877,398
Derivative financial assets	-	27,043	-	27,043
	243,547	2,008,415	245	2,252,207

HLCB Q3 (31.03.18)

28. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy (continued)

The Group 31.03.2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial liability				
Derivative financial liabilities	-	54,804	-	54,804
30.06.2017				
Financial assets				
Financial assets held-for-trading	41,547	1,061,100	-	1,102,647
- Money market instruments	-	862,157	-	862,157
- Quoted securities	41,547	-	-	41,547
- Unquoted securities	-	198,943	-	198,943
Financial investments available-for-sale	201,063	972,670	245	1,173,978
- Money market instruments	-	156,716	-	156,716
- Quoted securities	201,063	-	-	201,063
- Unquoted securities	-	815,954	245	816,199
Derivative financial assets	-	19,916	-	19,916
	242,610	2,053,686	245	2,296,541
Financial liability				
Derivative financial liabilities	-	47,959	-	47,959
The Company				
31.03.2018				
Financial asset				
Financial investments available-for-sale				
- Quoted securities	155,903	-	-	155,903
30.06.2017				
Financial asset				
Financial investments available-for-sale				
- Quoted securities	140,168	-	-	140,168

There were no transfers between Level 1 and 2 during the year.

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy are as follows:

The Group	Financial investments available-for-sale	
	31.03.2018 RM'000	30.06.2017 RM'000
At beginning/end of financial period/year	245	245

HLCB Q3 (31.03.18)

29. Capital adequacy

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

	HLIB 31/03/2018	HLIB 30/06/2017
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") capital ratio	27.668%	29.744%
Tier 1 capital ratio	27.668%	29.744%
Total capital ratio	32.200%	33.912%
After deducting proposed dividends: ⁽¹⁾		
CET1 capital ratio	27.668%	25.398%
Tier 1 capital ratio	27.668%	25.398%
Total capital ratio	32.200%	29.566%

(ii) The components of CET1, Tier 1 and total capital of the banking subsidiary are as follows:

	HLIB 31/03/2018 RM'000	HLIB 30/06/2017 RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Retained profits	191,910	246,910
Other reserves	(667)	1,440
Less: goodwill and intangibles	(32,283)	(33,796)
Less: deferred tax assets	(90,153)	(90,153)
Less: investment in subsidiary companies	(200)	(160)
Less: 55% of cumulative gains of financial instruments available-for-sale	-	(792)
Total CET1 capital	321,557	376,399
Tier-1 capital	321,557	376,399
Tier-2 capital		
Collective assessment allowance ⁽²⁾ and regulatory reserve ⁽³⁾	2,665	2,783
Subordinated obligations	50,000	50,000
Regulatory adjustments:		
- Investment in subsidiary companies	-	(40)
Total Tier 2 capital	52,665	52,743
Total capital	374,222	429,142

Note:

(1) Proposed dividends of RM Nil (2017: RM55,000,000).

(2) Excludes collective assessment allowance attributable to loans and advances classified as impaired.

(3) Includes the qualifying regulatory reserve for non-impaired loans and advances of RM2,464,000 (2017: RM2,504,000).

29. Capital adequacy (continued)

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

	HLIB 31/03/2018 RM'000	HLIB 30/06/2017 RM'000
Credit risk	414,439	461,963
Market risk	456,134	517,433
Operational risk	291,616	286,064
	<u>1,162,189</u>	<u>1,265,460</u>

30. Segmental reporting

(a) Segment information by activities for the financial period ended 31 March 2018:

	Investment banking and stockbroking	Fund management and unit trust management	Investment holding and others	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000
31 March 2018					
REVENUE & EXPENSES					
Revenue					
Net Interest income	31,204	383	67	-	31,654
Non interest income	82,378	24,878	60,998	(55,040)	113,214
Results					
Profit from operations	45,398	8,346	59,316	(55,040)	58,020
Taxation					4,070
Profit after taxation					62,090
31 March 2017					
REVENUE & EXPENSES					
Revenue					
Net Interest income	31,924	366	533	-	32,823
Non interest income	90,811	19,411	59,795	(52,329)	117,688
Results					
Profit from operations	53,788	5,899	58,311	(52,329)	65,669
Taxation					3,474
Profit after taxation					69,143

(b) Segmental analysis by geographical location has not been prepared as the Group's operations are predominantly conducted in Malaysia.

31. Property and equipment

The valuations of property and equipment have been brought forward without amendment from the financial statements for the financial year ended 30 June 2017.

32. Changes in composition of the Group

There were no changes in composition of the Group for the current financial period and up to the date of this report, except for the following:

HLCB had placed HLG Securities Sdn Bhd (“HLGS”), its wholly-owned subsidiary, under member’s voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. Mr Ling Kam Hoong of Messrs Ling Kam Hoong & Co., had been appointed on 6 October 2017 as liquidator of HLGS. HLGS is currently dormant and there are no future plans to activate the company.

The voluntary winding-up of HLGS will not have any impact on the net assets and earnings per share of the HLCB for the financial year ending 30 June 2018.

33. Capital commitments

Capital commitments for the purchase of property and equipment as at 31 March 2018 is RM4.9 million.

34. Changes in contingent liabilities

Details of contingent liabilities since the last audited reporting period are as follows:

Hong Leong Asset Management Bhd, a wholly owned subsidiary of the Company, is the Manager of Hong Leong Consumer Products Sector Fund (“Funds”). The Company provided a guarantee to Deutsche Trustees Malaysia Berhad, the trustee of the Funds, that if the funds falls below the minimum fund size of RM1,000,000, the Company would invest cash, equivalent to the shortfall, into the relevant fund.

The size of the fund was above the minimum of RM1.0 million as at 31 March 2018.

35. Related party transactions

All related party transactions had been entered into in the ordinary course of business that had been undertaken at arms’ length basis on normal commercial terms. These transactions are within the ambit of the approval granted under the Shareholders’ Mandate for recurrent related party transactions obtained at a general meeting.

Explanatory Notes Pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

1. Performance review

(a) Current financial quarter under review against previous corresponding financial quarter

	The Group		Variance	%
	Current	Last year's		
	quarter ended	quarter ended		
	31/03/2018	31/03/2017	RM'000	
	RM'000	RM'000		
Revenue	72,734	81,616	(8,882)	-10.9%
Profit before tax	20,652	25,764	(5,112)	-19.8%
Profit after tax	21,361	26,040	(4,679)	-18.0%
Profit attributable to equity holders of the Company	21,361	26,040	(4,679)	-18.0%

The group recorded a 19.8% lower profit before tax ("PBT") of RM20.7 million for the 3rd quarter March 2018 as compared to RM25.8 million recorded in the previous year corresponding quarter.

Lower PBT due to lower revenue mainly contributed by lower non-interest income of RM8.3 million (-18.7%); partially offset by lower overhead expenses.

The performance of the respective operating business segments for the three months ended 31 March 2018 as compared to the previous year corresponding quarter is analysed as follows:-

	The Group		Variance	%
	Current	Last year's		
	quarter ended	quarter ended		
	31/03/2018	31/03/2017	RM'000	
	RM'000	RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	16,779	21,590	(4,811)	-22.3%
Fund management and unit trust management	3,089	1,751	1,338	76.4%
Investment holding and others	784	2,423	(1,639)	-67.6%
	20,652	25,764	(5,112)	-19.8%

Investment banking and stockbroking - lower PBT by RM4.8 million (-22.3%) attributed to lower revenue contribution from its investment banking division in current quarter.

Fund management and unit trust management - PBT increased by RM1.3 million (76.4%) mainly due to higher net contribution from management fee income.

HLCB Q3 (31.03.18)

1. Performance review (continued)

(b) Current financial period under review against previous corresponding financial period

	The Group		Variance RM'000	%
	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000		
Revenue	225,850	228,865	(3,015)	-1.3%
Profit before tax	58,020	65,669	(7,649)	-11.6%
Profit after tax	62,090	69,143	(7,053)	-10.2%
Profit attributable to equity holders of the Company	62,090	69,143	(7,053)	-10.2%

The group recorded a lower PBT of RM58.0 million for the financial period ended 31 March 2018 as compared to RM65.7 million recorded in the previous year corresponding period.

Lower PBT mainly due to lower revenue contribution and higher overhead expenses incurred for current period. The lower revenue mainly contributed by lower non-interest income of RM4.5 million (-3.8%) and net interest income of RM1.2 million (-3.6%).

The performance of the respective operating business segments for the nine months ended 31 March 2018 as compared to the previous year corresponding period is analysed as follows:-

	The Group		Variance RM'000	%
	Current year ended 31/03/2018 RM'000	Last year's ended 31/03/2017 RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	45,398	53,788	(8,390)	-15.6%
Fund management and unit trust management	8,346	5,899	2,447	41.5%
Investment holding and others	4,276	5,982	(1,706)	-28.5%
	<u>58,020</u>	<u>65,669</u>	<u>(7,649)</u>	<u>-11.6%</u>

Investment banking and stockbroking - lower PBT by RM8.4 million (-15.6%) mainly attributed to lower revenue contribution from its investment banking division but partially offset by higher revenue contribution from its stockbroking division.

Fund management and unit trust management - PBT increased by RM2.4 million (41.5%) mainly due to higher net contribution from management fee income.

HLCB Q3 (31.03.18)

1. Performance review (continued)

(c) Current financial quarter under review against preceding financial quarter

	The Group		Variance RM'000	%
	Current quarter ended 31/03/2018 RM'000	Preceding quarter ended 31/12/2017 RM'000		
Revenue	72,734	81,040	(8,306)	-10.2%
Profit before tax	20,652	19,014	1,638	8.6%
Profit after tax	21,361	20,678	683	3.3%
Profit attributable to equity holders of the Company	21,361	20,678	683	3.3%

For the financial quarter ended 31 March 2018, the Group reported a higher PBT of RM20.7 million as compared to RM19.0 million in the preceding financial quarter ended 31 December 2017. This was mainly due to lower overhead expenses incurred of RM8.4 million (-24.1%). These were partially offset by lower non-interest income of RM6.9 million (-16.0%) and lower net interest income of RM0.2 million (-1.9%).

The performance of the respective operating business segments for the three months ended 31 March 2018 as compared to the preceding quarter is analysed as follows:-

	The Group		Variance RM'000	%
	Current quarter ended 31/03/2018 RM'000	Preceding quarter ended 31/12/2017 RM'000		
Profit before tax by segments:				
Investment banking and stockbroking	16,779	14,193	2,586	18.2%
Fund management and unit trust management	3,089	2,966	123	4.1%
Investment holding and others	784	1,855	(1,071)	-57.7%
	<u>20,652</u>	<u>19,014</u>	<u>1,638</u>	8.6%

Investment banking and stockbroking - higher PBT by RM2.6 million (18.2%) mainly due to lower variable overhead expenses incurred for current quarter.

Fund management and unit trust management - PBT increased by RM0.1 million (4.1%) mainly due to higher net contribution from management fee income.

2. Prospects for 2018

Despite a recovery in economic growth throughout FY2017, the outlook for FY2018 remains challenging as investors' sentiment remains susceptible to global economic uncertainties. However, the Bank will continue to focus on driving long-term sustainable growth for our businesses. The Bank's team of dedicated staff will also strengthen our efforts to build resilience towards disruptions in the market in the way we manage our processes, assets and businesses.

On the investment banking front, despite the challenging market conditions and operating environment, emphasis will continue to be placed on the offering of innovative financing solutions which has been the foundation of growth for Hong Leong Investment Bank ("HLIB") since its inception in Year 2009. Moving forward, resources will be channeled towards further widening the deals origination universe and to strengthen the distribution and placement capability for the Bank to compete vigorously in the market.

For Stockbroking business, HLIB will continue with its efforts to drive and scale up our ranking with our Institutional clients. In addition, there are also initiatives to complement its client base, leveraging on its newly set up Islamic Trading platform. As for the Retail Business, HLIB aspires to retain our leadership position in Malaysia with eBroking being our main focus. HLIB will continue with its efforts to strengthen its brand image as a valued broker via tailored product offerings and build value research. Digital initiatives will be continuously refreshed to sustain customer experience for our online business. Overall, the Stockbroking business will remain challenging due to the volatile and cautious market sentiment and uncertain commodity price trend. The stiff competition in the retail broking segment with the introduction of new online foreign trading platform will put further pressure on brokerage rates.

Hong Leong Asset Management ("HLAM") will continue to work towards delivering consistent and strong fund performance. HLAM believes that superior investment performance is the driver of growth for existing and new business. HLAM will continue to launch products and services to meet investors' demand for retail and wholesale funds. HLAM will also be focusing on building AUM, tapping into Hong Leong Group's resources such as the bank and insurance distribution channels. To support the Group's initiatives on digitalization, on-going efforts will be put in place to improve digitalization of its business operations. HLAM is working towards increasing its digital offering by FY2018. The fund management business will continue to grow through continued sales and marketing efforts and focus on delivering strong fund performance in FY2018. HLAM is constantly monitoring market demand and investors' appetite, and will launch appropriate funds at opportune times. Sales and marketing efforts are ongoing to strengthen its branding and presence through customer events and roadshows.

3. Variance in profit forecast and shortfall in profit guarantee

The Group had not entered into any scheme that requires it to present forecast results or guarantee any profits.

4. Taxation

	Financial quarter ended		Financial year ended	
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
The Group	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
- Current	975	527	2,165	1,612
- Under/(over) provision in prior years	55	(21)	55	(55)
Deferred taxation	(1,739)	(782)	(6,290)	(5,031)
	<u>(709)</u>	<u>(276)</u>	<u>(4,070)</u>	<u>(3,474)</u>

5. Status of corporate proposals

There were no corporate proposals announced but not completed as at the latest practicable date which was not earlier than 7 days from the issue of this report.

6. Status of utilisation of proceeds raised from corporate proposals

The proceeds raised from the issuances of the debt securities in prior years have been used for as intended.

7. Off-balance sheet financial instruments

Details of financial instruments with off-balance sheet risk as at 31 March 2018:

The Group	Principal amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Interest rate related contracts			
(i) Less than 1 year	1,452,505	1,615	(381)
(ii) 1 year to 3 years	1,805,000	6,537	(11,064)
(iii) More than 3 years	1,787,290	8,879	(2,607)
Foreign exchange related contracts			
(i) Less than 1 year	3,728,188	9,907	(40,752)
Equity related contracts			
(ii) 1 year to 3 years	7,000	105	-
	8,779,983	27,043	(54,804)

The above contracts are subject to credit risk and market risk.

Credit risk

Credit risk arises when counterparties to derivatives contracts are not able to or willing to fulfil their obligation to pay the Bank the positive fair value or receivable resulting from the execution of contract terms. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to credit risk.

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk.

Related accounting policies

The accounting policies applied for recognising the financial instruments concerned are the same as those applied for the audited financial statements.

HLCB Q3 (31.03.18)

8. Group borrowings and debt securities

The Group Unsecured	More than 1 year		Less than 1 year		Sub-total		Total RM'000
	Foreign currency RM'000	Local currency RM'000	Foreign currency RM'000	Local currency RM'000	Foreign currency RM'000	Local currency RM'000	
As at 31 March 2018							
RM Tier 2 subordinated notes	-	49,886	-	1,060	-	50,946	50,946
As at 30 June 2017							
RM Tier 2 subordinated notes	-	49,870	-	392	-	50,262	50,262
As at 31 March 2017							
RM Tier 2 subordinated notes	-	49,864	-	1,053	-	50,917	50,917

On 6 November 2014, Hong Leong Investment Bank Berhad ("HLIB") had completed the first issuance of RM50 million nominal value of Tier 2 Subordinated Notes ("Sub-Notes") out of its RM1.0 billion Multi-Currency Sub-Notes Programme. The RM50 million Sub-Notes will mature in 2024 and is callable on any coupon payment date falling on or after the 5th anniversary of the issue date. The Sub-Notes which bears interest rate of 5.30% per annum is payable semi-annually in arrears. The exercise of the call option on the Sub-Notes shall be subject to the approval of BNM.

The Sub-Notes constitute unsecured liabilities of HLIB, and is subordinated in right of payment to the deposit liabilities and all other liabilities of HLIB in accordance with the terms and conditions of the issue, except to those liabilities, which by their terms, rank equally in right of payment with or are subordinated to the Sub-Notes. The Sub-Notes qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of HLIB.

HLCB Q3 (31.03.18)

9. Material litigation

The Group and the Company do not have any material litigation which would materially and adversely affect the financial position of the Group and the Company.

10. Dividends

The Board of Directors does not recommend any dividend to be paid for the financial period ended 31 March 2018.

11. Earnings per share ("EPS")

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Financial quarter ended		Financial period ended	
	31/03/2018	31/03/2017	31/03/2018	31/03/2017
The Group				
Net profit attributable to equity holders of the Company (RM'000):	21,361	26,040	62,090	69,143
Weighted average number of ordinary shares in issue ('000):	241,283	241,283	241,283	241,283
Basic earnings per share (sen)	8.9	10.8	25.7	28.7
The Company				
Net profit attributable to equity holders of the Company (RM'000):	973	601	57,553	53,827
Weighted average number of ordinary shares in issue ('000):	241,388	241,388	241,388	241,388
Basic earnings per share (sen)	0.4	0.2	23.8	22.3

(b) Fully diluted earnings per share

There is no diluted earnings per share as the Group and the Company have no category of dilutive potential ordinary shares outstanding as at 31 March 2018 and 31 March 2017.

Dated this 30 May 2018.