



Suruhanjaya Sekuriti
Securities Commission
Malaysia

SC CORPORATE MINI CASE STUDY SERIES

Compliance at Cressida Securities: Beyond a Box-Ticking Exercise

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A Case Study on Compliance at Cressida Securities

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Case Study

Introduction

In May 2012, the Securities Commission Malaysia (“SC”) completed their routine audit of Cressida Securities Berhad’s (“CRESS”) operations. In the course of the audit, several issues of non-compliance with the SC’s guidelines came to light in relation to transactions carried out on behalf of CRESS’ clients from February 2012 to April 2012. These issues of non-compliance included account opening procedures, approval for increases in trading limits and, threshold amounts for cash and cheques deposits to flag suspicious transactions (*Refer to Exhibit 1 on the relevant SC Guidelines*).

This case was prepared by Azrina Abdul Aziz and Maria Elena Abd Molok under the supervision of Salleh Hassan as a basis for seminar discussions rather than to illustrate effective or ineffective handling of a business situation.

General Company Background

CRESS was incorporated in Malaysia on 1 July 1973. It is a wholly owned subsidiary of Cressida Ventures Berhad and is listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). CRESS is a stockbroking company licensed by the SC under the Capital Markets and Services Act 2007 (“CMSA”).

In 2013, CRESS was ranked eighth among stockbroking companies in Malaysia in terms of trading value, which amounted to RM38.5 billion, representing 3.7% of the total trading value for equities on Bursa Malaysia (trading volume for the same period was 42.4 billion units representing 5.5% of the total trading volume). Since the audit in 2012, the composition of the board of directors and key management has remained unchanged (*Refer to Exhibit 2 for information on CRESS, the board of directors and financial statements*). Prior to the audit period in 2012, CRESS had several adverse records due to breaches committed under the Rules of Bursa Malaysia¹ (*Refer to Exhibit 3 for information on the Adverse Records of CRESS*).

The Stock Broking Industry

There were altogether 36 stockbroking companies in Malaysia in 2012 and 14 of them were categorised as investment banks. The range of services offered by a stockbroker depends on whether it is an investment bank, universal broker, 1+1 broker, standalone or special scheme broker. Investment banks are able to offer a full range of integrated capital markets and financial services, i.e., corporate finance, debt securities trading and securities dealing. A universal broker is allowed to do stockbroking, equity underwriting and submission as well as debt underwriting. 1+1 Brokers are permitted to undertake stockbroking and equity

¹ The Rules of Bursa Malaysia Securities Bhd governs the conduct of its participating organisations including, the rules and procedures governing the quotation of securities on the stock market of the stock exchange and listing requirements; rules to ensure compliance by participating organisations of any obligations imposed by the Capital Markets & Services Act 2007 or any other written law; and rules in respect of such other matters necessary for the proper and efficient operation and management of the stock exchange.

submissions, and standalone stockbrokers can only perform the trade execution function. Special scheme brokers are foreign-owned stockbrokers who have been granted special licences to operate in Malaysia.

The Malaysian equity market had performed well in 2012 with the headline FTSE Bursa Malaysia Kuala Lumpur Composite Index (“FBMKLCI”) closing at an all-time record high of 1,688.95 points supported by a healthy and favourable domestic economy. Despite heightened global market volatility and a challenging economic environment, the index increased by 10.3%, compared to the marginal increase of 0.8% in 2011. Correspondingly, the overall capitalisation of the Malaysian equity market expanded to RM1,465.7 billion, representing an increase of 14.1% by end 2012 (2011: 0.7%). In terms of volume, local retail investors continued to be active as their market share improved from 47.6% in 2010 to 51.4% in 2012, with interest focused on ‘penny’ stocks (*Refer to Exhibit 4 for further information on the equity market in 2012*).

SC’s Findings on Transactions

The audit meetings with the SC were attended by Datuk Amirul Bin Mohd Saad (Executive Director Dealing), Mr Chin Ka Lok (Executive Director Operations), Philip Luk (Compliance Officer) and Peter Kam (Head of Credit Control). The non-executive directors were not present in any of these meetings but they were likely to be aware of the findings highlighted as these issues had been escalated to them.

1. Account Opening

From February 2012 to April 2012, seven (7) of CRESS clients’ account opening files did not have financial supporting documents, such as recent bank statements, as proof of financial standing. Out of these seven (7) clients, CRESS did not have any records of six (6) of the clients’ estimated net worth (*Refer to Exhibit 5 for summary of the accounts opened without sufficient information*).

CRESS’ Response: All clients are required to complete an ‘Application for Opening of Trading Account’ form which includes personal and background data which clients also need to declare and undertake as true and correct. Dealer’s representatives (“DRs”) then carry out client evaluation, including trading behaviour, payment pattern, and ability to evaluate risk, risk capacity and knowledge of trading rules. CRESS also checks against the defaulter list of Bursa Malaysia and conducts due diligence to understand the clients’ risk/investment profile and facilitated transaction analysis and suspicious activity monitoring. In this case, as the DRs knew the clients personally and were aware of their financial standing, the DRs did not request for any documentation to support their financial standing.

2. *Requests for Increase of Initial Trade Limit*

During the same period of February 2012 to April 2012, it was found that CRESS had approved requests from five (5) clients to increase their trading limits which was initially set at RM10,000. The approved temporary increase in trading limit ranged from RM100,000 to RM600,000 over this three (3)-month period and requests for increase were made several times (ranging from four (4) to nine (9) requests per month) throughout this period (*Refer to Exhibit 6 for summary of requests for increase in trading limit*). It was also revealed that CRESS approved the requests during market hours without proper documentation.

To illustrate, one of CRESS' clients, Mr Gordon Cheng, a site coordinator with Bretton Pneumatics Sdn Bhd, made 18 requests to increase his trading limit over the three (3)-month period from the date his account was opened on 8 February 2012. His trading limit was raised from RM10,000 to RM300,000 in February 2012 and consequently to RM600,000 in April 2012.

CRESS' Response: Requests for temporary increase in trading limits and approvals were fully automated wherein requests were keyed in into the back office computer system by the Credit Control Officer ("CCO") together with the basis for recommendation. The system then forwarded the requests to the relevant approving authority ("AA") based on the value of the limit requested. Approval or rejection of requests was based on the information/recommendation by the CCO and the AA's evaluation of the clients' historical trading records as well as the amount of security/shares in their account.

3. *Threshold Amounts of Transactions*

Eleven (11) customers deposited large amounts of cash into CRESS' bank account in several transactions where the amounts did not commensurate with the clients' background (*Refer to Exhibit 7 for a summary of the customers' cash deposits*). For example, one of CRESS' clients, Tris Kwan, was at the material time 20 years old and worked as a clerk in Travers Manufacturing Sdn Bhd with a gross annual income of less than RM12,000. Over the three (3)-month period from February 2012 to April 2012, she made cash deposits totalling RM279,917.65.

Over the same period, the transactions of five (5) clients including Tris Kwan could not be matched with their investment and income levels (*Refer to Exhibit 8 for summary of transactions that cannot be matched with investment and income level*). None of these clients had declared a gross annual income above RM60,000 but the trading value of their

transactions ranged from RM10,029,492 to RM13,878,717. All of the transactions were made on the same four (4) counters, i.e. Seneca Universal, Marvel Tech, Avcorp and Venasolutions.

Large settlements made in cash were not flagged. Two of CRESS' clients made cash settlements with cumulative amounts of RM3,172,124.66 and RM9,392,534.25 (*Refer to Exhibit 9 for details of these large or unusual settlement of securities*). In fact, on 23 April 2012, one of the clients, Ken Tse made a single cash deposit of RM4,507,000 to purchase securities. CRESS also failed to seek clarification on the transactions of three (3) clients who, in a single day, in the months of January 2012 and February 2012, made several cash deposits totalling RM200,020 to RM750,000 into multiple bank accounts that CRESS maintained.

At the same time, it was found that CRESS' business units had different monitoring and notification practices for different transactions. While the Compliance Department would flag transactions for cash deposits made over the counter with a monthly aggregate value exceeding RM100,000, the Margin and Settlement Department did not look at the aggregate value of transactions. Furthermore, the transaction monitoring system used by the Compliance Department was unable to capture all accounts owned by the same client. In June 2011, a series of cash transactions by a client who had trading and margin accounts with an aggregate value exceeding RM100,000 were not identified for review.

CRESS' Response: Under CRESS' policy and procedures on anti-money laundering and counter financing of terrorism ("AML/CFT") for monitoring suspicious transactions, over-the-counter cash deposits exceeding RM100,000 and cheque deposits exceeding RM500,000 would have to be flagged and reported to the Financial Intelligence and Enforcement Department ("FIED") of Bank Negara Malaysia. The thresholds were determined at these amounts as CRESS was under the impression that the commercial banks where the deposits were made would investigate any substantial cash deposits banked in. As the transactions were cash deposits made directly into the bank account, CRESS did not think that there was anything untoward about these transactions as it was not alerted by the commercial banks.

Each business unit was responsible for and carried out the monitoring of suspicious transactions. The Compliance Department, on its own initiative, independently checked for cash deposits over the counter within a month with an aggregate value exceeding RM100,000. This explained the difference in threshold monitoring between the Compliance Department and the Margin and Settlement Department. Nonetheless, the Compliance Department's transaction monitoring system was only able to capture

payment from one account and did not recognise payments from a series of accounts by the same client. Due to this, aggregated transactions by the same client were not flagged and identified for review.

4. Training Programmes and Independent Audit

The last programme on AML/CFT provided by CRESS was held in 2008. However, the training programme was general in nature and not designed to address specific risks of the company's business lines or functions, i.e., senior management, front-liners, dealers' representatives and back office employees.

While CRESS' internal audit department conducts yearly reviews on its AML/CFT framework, the adequacy and relevancy of ongoing education and training programmes were not assessed.

CRESS' Response: Whilst employees in the operations and dealing departments who had been with the company for more than 5 years attended the training on AML/CFT in 2008, new employees were only briefed on AML/CFT requirements by the Human Resource Department. In 2011, an email on the AML/CFT Guidelines was sent to Heads of Departments ("HODs") and senior staff as part of training and a refresher on AML/CFT requirements for capital market intermediaries. There was another AML/CFT training session planned in 2012 and HODs were to train their respective staff in the identification of unusual activities which might be suspicious and specific to their department functions.

Administrative Action by the SC

On 25 April 2013, the SC took administrative action against CRESS provided for under Section 356(1) of the CMSA for breaches in complying with:

- (a) Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries; and
- (b) Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives.

Specifically, it was found that CRESS had failed to:

- 1) have and implement an effective system to detect and report suspicious transactions;
- 2) provide adequate employee training and to conduct independent audit on compliance programmes; and
- 3) have in place adequate Customer Due Diligence processes and "know-your-client" requirements.

Based on the evidence and findings, the SC imposed a monetary penalty of RM150,000. The SC further directed CRESS to take immediate remedial action to address the inadequacies in its supervisory policies and internal control procedures. The management of CRESS was also required to intensify their awareness of regulatory responsibilities and ensure that these responsibilities are discharged effectively and efficiently.

The relevant SC guidelines provide that the Board of Directors and senior management of the stockbroking company will be held primarily accountable and responsible in ensuring adequate policies, procedures, and resources are put in place to meet the core principles of promoting responsible market and business conduct among stockbrokers, their representatives and employees. What went wrong? Did the Board of Directors fail to act to prevent these instances of non-compliance?

Exhibits

Exhibit 1

Relevant SC Guidelines

Relevant SC Guidelines

As the Securities Commission Malaysia (“SC”) adopts a principles-based approach to regulating the capital market industry, the Board of Directors (“BOD”) of licensed intermediaries is increasingly called upon to take an active role in matters concerning compliance. Compliance to capital market laws and regulations can no longer be the sole domain of the Compliance Officer particularly when it comes to engendering a compliance culture and implementing regulatory requirements that seek to ensure investor protection and market integrity.

Guidelines on Market Conduct and Business Practices (“Market Conduct Guidelines”)

The Market Conduct Guidelines sets out 11 core principles of supervision applicable to stockbroking companies and their representatives under the SC’s principles-based regulation and the requirement to comply with the Anti-Money Laundering and Counter Financing of Terrorism Guidelines (“AML/CFT Guidelines”) issued by Bank Negara Malaysia. The Market Conduct Guidelines also set forth the standards expected of stockbroking companies, their representatives and where applicable, their employees, in market and business conduct. To this effect, the BOD and senior management of the stockbroking company will be held primarily accountable and responsible in ensuring adequate policies, procedures, and resources are put in place to meet the core principles.

From the various provisions in the guidelines, it is clear that having mere processes and procedures to flag transactions over a certain set threshold and over-reliance on the Compliance Officer and third party bank are not sufficient for Cressida Securities Berhad (“CRESS”) to be considered fully compliant with the guidelines.

Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries (“PMLTF Guidelines”)

The PMLTF Guidelines are issued pursuant to Section 83 and section 66E of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (“AMLATFA”) and section 377 of the Capital Markets and Services Act 2007. Reporting institutions have an obligation not to facilitate money laundering or terrorist financing and should have a system in place for reporting suspected transactions. The BOD of a reporting institution should be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing, and ensuring their effectiveness in compliance with the relevant regulatory and legal requirements.

The following sets out the general principles to combat money laundering and terrorism financing under the PMLTF Guidelines:

Customer identification

Reporting institutions are required to identify on the basis of official or other reliable identifying documents and to record the identity of their clients when establishing business relations or conducting transactions. Reporting institutions are required to verify, by reliable means, the identity, occupation of any client, whether the client is an occasional or regular client, particularly when opening new accounts or performing any cash transaction exceeding the amount determined by the reporting institution.

Reporting institutions should implement and maintain appropriate guidelines to assist their representatives and employees in learning facts about their clients' backgrounds. In determining the risk profile of its client, the reporting institution should look into, amongst others, the client's investment objectives and financial background, and be able to judge whether the amount of cash or other financial instruments going through accounts are consistent with the line of business or occupation of the client and the means of payment as well as type of payment mode.

Customer Due Diligence

Reporting institutions should conduct on-going due diligence and scrutiny of the client throughout the course of the business relationship to ensure transactions are consistent with the reporting institution's knowledge of the client.

Reporting institutions should classify a client as higher risk if, following initial acceptance of the client, the account activity pattern does not fit in with the reporting institution's knowledge of the client.

Record Keeping

Reporting institutions should consider undertaking periodic and/or ad hoc reviews of existing customer records to consider reclassifying a customer as low or high risk. The frequency of the reviews should be based on the reporting institution's understanding of the client and the transaction. For example, an ad hoc review should be performed when there is a transaction that is unusual or not in line with the customer's normal trading pattern based on the reporting institution's knowledge of the customer or when the reporting institution is not satisfied it has sufficient information about the customer.

Suspicious Transactions Reporting

A reporting institution is required to clarify the economic background and purpose of any transaction if it appears to be unusual (in form or amount) in relation to the client. Suspicious transactions are likely to involve a number of factors. If a licensed representative or employee of a reporting institution comes across a transaction upon bringing together all relevant factors and has reasonable grounds to suspect that the transaction may be connected with certain unlawful activities, such transactions should be reported to the Financial Intelligence and Enforcement Department (“FIED”), Bank Negara Malaysia.

For examples of suspicious transactions, please refer to **Exhibit 7**. These transactions include larger or unusual settlements of securities in cash form, a client who suddenly starts making investments in large amounts when it is known to the reporting institution that the client does not have the capacity to do so and transactions that cannot be matched with investment and income levels.

Compliance and Training

The guidelines require a reporting institution to adopt, develop and implement internal programmes, policies, procedures and to guard against and detect any offence under the AMLATFA which include:

On-going employee training programmes, Know-Your-Client (“KYC”) programmes and instructing employees with regard to the responsibilities under the AMLATFA in relation to reporting of suspicious transactions to the FIED, centralisation of information, identification of clients and retention of records.

Notwithstanding the duties of the compliance officer, the ultimate responsibility for proper supervision, reporting and compliance of AMLATFA shall rest with the reporting institution and the BOD.

Exhibit 2

Company Information - CRESS

Company Information - CRESS

Cressida Securities Berhad (“CRESS”) is a public limited company, incorporated and domiciled in Malaysia. The immediate and ultimate holding company is Cressida Ventures Berhad, a public listed company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The effective interest held by Cressida Ventures Berhad and the principal activities of its other subsidiaries as at 31 January 2013 and 31 January 2012, all incorporated in Malaysia, are as follows:

Name of subsidiaries	Effective interest held (%)	Principal activities
Cressida Nominees (Tempatan) Sdn. Bhd.	100	Nominee services
Cressida Nominees (Asing) Sdn. Bhd.	100	Nominee services
CVSEC Nominees (Tempatan) Sdn. Bhd.	100	Nominee services
CVSEC Nominees (Asing) Sdn. Bhd.	100	Nominee services
CRESS Muamalah Nominees (Tempatan) Sdn. Bhd.	100	Dormant
CRESS Muamalah Nominees (Asing) Sdn. Bhd.	100	Dormant
CRESS Investment Management Berhad	70	Licensed fund manager

Directors (as at 22 July 2014)

Chin Ka Lok	Executive Director
Datuk Amirul Bin Mohd Saad	Executive Director
Ahmad Zill Bin Faezrul Iqba	Executive Director
Tsui Ka-Kit	Independent Non-Executive Director
Ka Tung Lam	Independent Non-Executive Director

Chin Ka Lok was appointed Executive Director of CRESS on 1 December 2011. From 2011 to 2012, there were no other appointments made to the Board of Directors.

Directors' Profile

Mr Chin Ka Lok - Executive Director Operations

Mr Chin Ka Lok obtained his Accountancy qualification in 1985 and is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

He began his career in audit and accountancy with the public accounting firm of Noble Shahrman Kwong & Co. in February 1980. In March 1987, after seven years of experience in audit, taxation and investigation, he left to join Quadro Commercial (M) Berhad as an Assistant Internal Audit Manager.

His career in the stockbroking industry began in October 1987 and he held various senior positions before joining CRESS as the General Manager Operations in March 2002. Since December 2011, he has been re-designated as the Executive Director Operations of CRESS.

Datuk Amirul Bin Mohd Saad - Executive Director Dealing

Datuk Amirul Bin Mohd Saad obtained a Bachelor in Business Administration (Finance) from Western Michigan University, Michigan, USA in 1981 and a Master in Business Administration (Finance) from University of Northern Colorado, Colorado, USA in 1984.

He started his career as a remisier with Uniquote Securities, Kuala Terengganu in 1984 and left in 1986 to join the Treasury Department of Konron Berhad, Kuala Lumpur. He was a forex and money market dealer and has extensive knowledge in technical analysis.

He joined CRESS in April 1991 and has vast experience in the dealing of equities and fixed income. He was appointed as Executive Director Dealing of CRESS in September 2007.

En Ahmad Zill Bin Faezrul Iqba - Executive Director Dealing

En Ahmad Zill Bin Faezrul Iqba obtained his Master of Architecture degree from the University of Kansas, USA in 1990. He started his career in the stockbroking industry with Tuhus-Dubrow & Suhaimi Securities Sdn Bhd. He has vast experience in handling institutional and high net worth clients. From 2003 to 2005, he was actively involved in the Finance Committee of the Bumiputra Dealer's Representative Education Fund ("BDREF") which was under the supervision of the Securities Commission Malaysia. He joined CRESS in May 2004, to develop the institutional clients' base in line with the company's expansion programme. He was appointed as Executive Director Dealing of CRESS in December 2007.

Mr Tsui Ka-Kit, Alex - Independent Non-Executive Director

Mr Tsui Ka-Kit, Alex obtained his Bachelor of Law degree with Honours from the University of Malaya in 1994. He was admitted as an Advocate and Solicitor of the High Court of Malaya in March 1995, whereupon he proceeded with active practice in civil litigation.

In May 1997, he joined CRESS's Legal Department and was subsequently promoted as Manager in this department in February 2002. In April 2003, he resumed his legal practice as a partner with Messrs Barnes & Co, Advocates and Solicitors and subsequently in January 2005, as a partner with Messrs Luk Chan & Tsang, Advocates and Solicitors.

He was appointed as an Independent Non-Executive Director of CRESS in July 2007.

Mr Ka Tung Lam, Albert - Independent Non-Executive Director

Mr Ka Tung Lam, Albert obtained his Accountancy qualification and practical experience in London, United Kingdom. Upon his return from the UK in 1982, he embarked on his banking career in Malaysia.

He moved to New Zealand in 1987 to broaden his international banking career with Fortis Bank and later to Lamarre Bank to head up their Wholesale Corporate Bank Risk Management team. While in New Zealand, he completed the NZ Banking Associate examination and an MBA from Massey University, New Zealand.

In September 1997, he moved back to Asia to be the Country Head of Credit & Risk Management for MME LAXO Singapore. Prior to setting up his own business, he held a senior position with Newton Citibank (HK) as their Asia Regional Credit Risk Head. In his 20 odd years in the banking industry, he acquired an intimate knowledge of finance, trade financing, risk management and supply chain businesses as well as various types of businesses in the region.

He was appointed as an Independent Non-Executive Director of CRESS in September 2007.

Key Management

Mr Chin Ka Lok - Executive Director Operations

Mr Shamsar Sidhu - Vice President

Mr Sidhu obtained his Bachelor of Economics (Business Administration) from the University of Malaya in 1990 and in 1999 obtained his Master degree in Business Administration, majoring in Finance from the same university.

He began his career as a lecturer in a college in Kuala Lumpur before moving on to the manufacturing sector. In 1991, he joined Jeyadame Berhad as a Supervisor in the Production Department. Thereafter, he held various senior positions and his last position was as Corporate Business Development Manager. In Sept 1999, he switched careers and joined Pheonix Leong Securities Bhd as a Senior Analyst, covering the oil & gas, technology and telecommunication sectors.

After a six-year stint, he joined CRESS in a similar capacity and took over as the Head of Research in October 2006.

Mr Yin Chi Wai - Assistant Vice President

Mr Yin Chi Wai started his career in the stockbroking industry in 1990. He was the Head of Operations of Malique-Sona Securities Bhd, Seri Alam branch prior to joining CRESS in January 2005. He was promoted to Assistant General Manager in February, 2008 and is currently the Head of Credit Control Department.

Financial Statements for the Financial Year Ended 31 January 2013

CRESSIDA SECURITIES BERHAD

(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 31 JANUARY 2013**

	31.01.13	31.01.12	As at 01.02.11
	RM'000	RM'000	RM'000
ASSETS			
Non-current assets			
Property and equipment	3,177	3,234	3,623
Intangible asset	40	44	53
Investment securities	5,024	-	-
	<u>8,241</u>	<u>3,278</u>	<u>3,676</u>
Current assets			
Manager's stocks	1	1	1
Trade receivables	481,103	454,867	548,377
Other receivables	4,392	3,668	5,030
Tax recoverable	1,750	700	563
Due from related companies	96,881	-	-
Investment securities	9,483	6,574	6,678
Short term funds	83,098	156,936	92,776
	<u>676,708</u>	<u>622,746</u>	<u>653,425</u>
TOTAL ASSETS	<u>684,949</u>	<u>626,024</u>	<u>657,101</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the Company			
Share capital	250,000	250,000	250,000
Retained profits	43,316	45,020	33,550
	<u>293,316</u>	<u>295,020</u>	<u>283,550</u>
Non-controlling interest	2,889	3,030	3,039
Total equity	<u>296,205</u>	<u>298,050</u>	<u>286,589</u>
Non-current liability			
Deferred tax liabilities	138	86	116
Current liabilities			
Trade payables	307,629	252,147	255,285
Due to remisiers	50,457	55,661	61,330
Other payables	15,237	16,213	19,736
Due to related companies	283	3,867	33,329
Borrowing	15,000	-	-
Tax payable	-	-	716
	<u>388,606</u>	<u>327,888</u>	<u>370,396</u>
Total liabilities	<u>388,744</u>	<u>327,974</u>	<u>370,512</u>
TOTAL EQUITY AND LIABILITIES	<u>684,949</u>	<u>626,024</u>	<u>657,101</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2013**

	31.01.13 RM'000	31.01.12 RM'000
Revenue	117,062	122,815
Other income	14,894	18,943
Personnel costs	(32,597)	(31,665)
Depreciation and amortisation	(972)	(1,109)
Remisiers' commissions	(24,823)	(31,589)
Other expenses	(55,280)	(44,771)
Operating profit	18,284	32,624
Finance cost	(214)	(13)
Profit before tax	18,070	32,611
Income tax expense	(4,915)	(8,150)
Profit for the year, representing total comprehensive income for the year	<u>13,155</u>	<u>24,461</u>
Total comprehensive income attributable to:		
Equity holders of the Company	13,296	24,470
Non-controlling interest	(141)	(9)
	<u>13,155</u>	<u>24,461</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2013**

	<-Equity attributable to equity holder of-> the Company				
	Share Capital	Distri- butable Retained Profits	Total	Non- controlling Interest	Total Equity
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 February 2011	250,000	33,550	283,550	3,039	286,589
Total comprehensive income	-	24,470	24,470	(9)	24,461
Transaction with owner					
Dividend	-	(13,000)	(13,000)	-	(13,000)
Total transaction with owner	-	(13,000)	(13,000)	-	(13,000)
At 31 January 2012	250,000	45,020	295,020	3,030	298,050
Total comprehensive income	-	13,296	13,296	(141)	13,155
Transaction with owner					
Dividend	-	(15,000)	(15,000)	-	(15,000)
Total transaction with owner	-	(15,000)	(15,000)	-	(15,000)
At 31 January 2013	<u>250,000</u>	<u>43,316</u>	<u>293,316</u>	<u>2,889</u>	<u>296,205</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2013**

	31.01.13 RM'000	31.01.12 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	18,070	32,611
Adjustments for:		
Amortisation of intangible assets	38	23
Depreciation	934	1,086
Interest expenses	210	6
Allowance for impairment	19,507	20,961
Reversal of impairment allowances	(2,800)	(10,836)
Net fair value loss on held for trading	2,183	1,180
Gross dividends from held for trading investments	(138)	(379)
Gain on disposal of property and equipment, net	(44)	-
Gain on disposal of held for trading investments	(8,372)	(13,043)
Interest income from deposits and placements	(3,116)	(3,395)
Interest income from holding company	(1,402)	-
Interest income from held-to-maturity investment	(205)	-
Operating profit before working capital changes	24,865	28,214
(Increase)/decrease in receivables	(43,630)	84,834
Changes in related companies balances	(99,064)	(29,461)
Increase/(decrease) in payables	52,027	(10,955)
Cash (used in)/generated from operations	(65,802)	72,632
Interest received	3,299	3,307
Taxes paid	(5,988)	(8,949)
Net cash (used in)/generated from operating activities	(68,491)	66,990
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from disposal of held for trading investments	3,280	11,967
Net dividend received	213	293
Proceeds from disposal of property and equipment	393	-
Purchase of property and equipment and intangible asset	(1,264)	(711)
Purchase of held to maturity investment	(5,033)	-
Net cash (used in)/generated from investing activities	(2,411)	11,549

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2013 (CONTD.)**

	31.01.13	31.01.12
	RM'000	RM'000
CASH FLOW FROM FINANCING ACTIVITY		
Interest paid	(210)	(6)
Net drawdown from borrowing	15,000	-
Dividend paid	(15,000)	(13,000)
Net cash generated used in financing activities	<u>(210)</u>	<u>(13,006)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(71,112)	65,533
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	125,720	60,187
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u>54,608</u>	<u>125,720</u>
Cash and cash equivalents which excluded pledged fixed deposits and remisiers' monies comprise		
Cash and bank balances	10,112	4,611
Short term deposits with licensed banks	21,188	67,235
Short term deposits with licensed investment banks	23,308	53,874
	<u>54,608</u>	<u>125,720</u>

Exhibit 3

**Adverse Records of CRESS on Breaches Committed Under the Rules
of Bursa Malaysia Securities Berhad**

Exhibit 3**Adverse Records of Cressida Securities Berhad (“CRESS”) on breaches committed under the Rules of Bursa Malaysia Securities Berhad**

Date of Action	Section of Offence¹	Nature of Offence	Action/Type of Penalty	Sub-Action
20-Oct-11	Rule 703.8 (2)	Failure to ensure disclosure of relationship between the client and Commissioned Dealer's Representative for the opening of margin account	Warnings	Caution
20-Oct-11	Rule 702.2 (1)	Failure to ensure that its employees did not open and/or maintain trading account with other Participating Organisation	Warnings	Caution
29-Aug-11	Rule 508.6 (1)	Failure to ensure employees comply with the requirements not to undertake any dealing in securities that were included in the Restricted List	Warnings	Caution
29-Aug-11	Rule 508.6 (2) (a) (i)		Directive	
22-Apr-10	Rule 404.1(7)(b) & 309.7(1) read together with 601.2(3) & 601.2(4)	CRESS did not have an effective supervision and monitoring method for the contract amendments carried out by its Dealer's Representatives (“DRs”) and failed to ensure that the requirements on contract amendments were complied with at all times by its DRs.	Administrative fine	
22-Apr-10	Rule 404.1(7)(b) & 309.7(1) and Paragraph 3.2(a) of Participating Organisations' Circular ² No. R/R 18 of 2005	Sharing of Clearing Accounts among clients; co-mingling of clients' accounts.	Administrative fine	

¹ All reference to Rule refers to the previous Rules of Bursa Malaysia Securities Bhd which remained effective until 31 May 2013.

² Circulars/Amendments, issued by Bursa Malaysia Securities Bhd, are to be read together with the relevant Rules of Bursa Malaysia Securities Bhd

Exhibit 3

Date of Action	Section of Offence¹	Nature of Offence	Action/Type of Penalty	Sub-Action
29-Apr-08	Rule 406.2 and Paragraph 6.4 of Participating Organisations' Circular ³ No. R/R 7 of 2006	Failed to submit an application and/or an undertaking to Bursa Securities on the carrying out of the Back Office functions of its holding company.	Private reprimand	
29-Apr-08 Fined RM500/-	Rule 404.1(7)(b) & 601.2(4)(a)	It was noted that there were numerous instances of contract amendments effected on T-Day which did not have contract amendment forms raised by the Dealer's Representatives concerned.	Administrative fine	
29-Apr-08	Rule 805.1(1) and Part 4A, Schedule 2A	The inspection findings revealed that there were many instances whereby CRESS forced sold the outstanding purchase contracts only on T+5 (9 instances at Principal Office & 20 instances at Ipoh Branch Office for the period between February 2007 to August 2007).	Administrative fine	
13-Oct-05	Rule 703.9(1) and 309.2(1)	Violation of the Rules of Bursa Malaysia Securities Bhd	Administrative fine	
13-Oct-05	Rule 403.3(1)	The name of the officer in charge of handling all complaints at Sibul Branch Office was not displayed at any prominent area. [Ref: 91/2005].	Warnings	Caution

³ Circulars/Amendments, issued by Bursa Malaysia Securities Bhd, are to be read together with the relevant Rules of Bursa Malaysia Securities Bhd

Exhibit 4

Equity Market in 2012

Equity market in 2012¹

Equity market performance was encouraging

The Malaysian equity market performed well in 2012, with the headline FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) closing at an all-time record high of 1,688.95 points supported by a healthy and favourable domestic economy. Despite heightened global market volatility and a challenging economic environment, the index increased by 10.3%, compared to the marginal increase of 0.8% in 2011. Correspondingly, the overall capitalisation of the Malaysian equity market expanded to RM1,465.7 billion, representing an increase of 14.1% by end 2012 (2011: 0.7%). Compared to benchmark stock indices, the Malaysian stock market performance trailed the MSCI Emerging Asia Index and MSCI World Index during 2012, with both indices growing by 18.1% and 13.2% respectively. Nevertheless, while the Malaysian equity market had not grown as rapidly as some of the regional indices, the FBMKLCI outperformed the headline indices of major developed markets, such as the US' Dow Jones Industrial Average (7.3%) and the UK's FTSE100 Index (5.8%). The resilience of the Malaysian stock market was evidenced by its long-term performance, as shown by Malaysia sustaining its position as one of the few markets posting a net positive return since the onset of the global financial crisis.

Trading remained active

The positive sentiment in the domestic equity market was boosted by the country's stable economic growth, strong fundamentals and supportive policies. The relatively high level of confidence lent support to the market as indicated in the slight increase in trading activity over the year. The average daily trading value of RM1.66 billion was lower than the preceding year's RM1.79 billion although the average daily trading volume rose by 1.3% in 2012 to 1.36 billion shares. In comparison, the trading volume for equity transactions worldwide declined by 22.5% during the same period. For the year 2012, institutional investors continued to dominate trading activity; both domestic and foreign institutional investors made up 77% of securities trading, compared to 23% by retailers. The monthly average trading value by local institutions in 2012 stood at RM18 billion equivalent to 56% of the overall average monthly trading value, with the foreign investors' and local retailers' average monthly trading value at RM8 billion and RM6 billion respectively. In terms of volume, local retail investors continued to be active as their market share improved from 47.6% in 2010 to 51.4% in 2012, with interest focused on 'penny' stocks.

¹ Extracted from the Securities Commission Annual Report 2012

Exhibit 5

**Summary of Accounts Opened without Sufficient Information on
Client's Background**

Summary of accounts opened without sufficient information on client's background:

No	Client	Gross annual income (RM)	Estimated net worth (RM)	Initial approved trading limit (RM)	Supporting financial documents provided (Y/N)
1	Max Tham	100,001 to 200,000	Not provided	100,000	N
2	Andrew Cheng	60,000 to 100,000	Not provided	10,000	N
3	Caleb Lam	More than 200,000	Not provided	10,000	N
4	Everdeen Low	100,001 to 200,000	Not provided	100,000	N
5	Kasyah Abdullah	100,001 to 200,000	2,000,000	50,000	N
6	Tris Kwan	Less than 12,000	Not provided	10,000	N
7	Vijay Malhotra @Ah Lim	100,001 to 200,000	Not provided	10,000	N

Exhibit 6

**Summary of Customers Requesting Temporary Increase in Their
Trading Limits For the Period February 2012 to April 2012**

Summary of customers requesting temporary increase in their trading limits for the period February 2012 to April 2012:

No.	Client code	Client name	Occupation	Cash directly banked in by client (RM)	Month	No. of client requests	Initial approved trading limit*(RM)	Range of increase in temporary trading limit (RM)
1	240972	Jeanine Cheng	Executive – Travers Manufacturing S/B	129,133	Feb 2012	4	10,000	200,000 to 300,000
					Mar 2012	4		500,000
					Apr 2012	6		100,000 to 500,000
					Total	14		
2	241021	Suki Cheng	Marking – Usaha Raya S/B	215,762	Feb 2012	3	10,000	300,000
					Mar 2012	4		300,000 to 500,000
					Apr 2012	7		200,000 to 400,000
					Total	14		
3	240907	Gordon Cheng	Site Coordinator – Bretton Pneumatics S/B	316,458	Feb 2012	8	10,000	200,000 to 300,000
					Mar 2012	5		200,000 to 500,000
					Apr 2012	5		300,000 to 600,000
					Total	18		
4	240906	Tris Kwan	Clerk – Travers Manufacturing S/B	279,912	Feb 2012	6	10,000	200,000 to 300,000
					Mar 2012	7		200,000 to 500,000
					Apr 2012	9		100,000 to 600,000
					Total	22		

Exhibit 6

No.	Client code	Client name	Occupation	Cash directly banked in by client (RM)	Month	No. of client requests	Initial approved trading limit*(RM)	Range of increase in temporary trading limit (RM)
5	240901	Caesar Mah	Estate Agent	312,474	Feb 2012	6	10,000	200,000 to 300,000
					Mar 2012	7		200,000 to 500,000
					Apr 2012	8		100,000 to 500,000
					Total	21		

*As of 31 May 2012

Exhibit 7

List of Customers Who Deposited Large Amounts of Cash Where the Transaction Volume Did Not Commensurate With the Background of the Customers, For the Period February 2012 to April 2012

List of customers who deposited large amounts of cash where the transaction volume did not commensurate with the background of the customers, for the period February 2012 to April 2012

No.	Client Name	Date of account opened	Occupation	Declared Gross Annual Income (RM)	Amount deposited within 3 months (RM)
1	Caleb Lam	03/02/2012	Contractor	>200,000	635,000.00
2	Jerry Chang	03/02/2012	Contractor	100,001 to 200,000	948,173.00
3	Everdeen Low	10/03/2008	Director – Luxe Lifestyle S/B	100,001 to 200,000	3,172,124.66
4	Ken Tse	16/12/2011	CEO – Mega Sena S/B	>200,000	9,392,534.25
5	Effie Tay	19/09/2005	Audit Manager – Peeta & Co	48,001 to 60,000	1,258,392.60
6	Andrew Cheng	03/02/2012	Self-employed – Travers Manufacturing S/B	60,000 to 100,000	1,990,133.80
7	Jeanine Cheng	13/02/2012	Executive – Travers Manufacturing S/B	24,001 to 36,000	129,133.00
8	Caesar Mah	08/02/2012	Estate Agent	48,001 to 60,000	312,473.50
9	Tris Kwan	08/02/2012	Clerk – Travers Manufacturing S/B	<12,000	279,917.65
10	Gordon Cheng	08/02/2012	Site Coordinator – Bretton Pneumatics S/B	48,001 to 60,000	316,458.40
11	Suki Cheng	16/02/2012	Marking – Usaha Raya S/B	24,001 to 36,000	215,762.34

Exhibit 8

**Summary of Transactions from February 2012 to April 2012 That
Could Not Be Matched with Investment and Income Level**

Exhibit 8

Summary of transactions from February 2012 to April 2012 that could not be matched with investment and income level:

No.	Client Name	Date of account opening	Occupation	Declared Gross Annual Income (RM)	Trading volume (Units)	Trading value (RM)	Stock counters traded	Total cash deposited (RM)	Number of client requests for temporary increase in trading limit	Range of temporary trading limit (RM)
1	Caesar Mah	08/02/2012	Estate Agent	48,001 to 60,000	50,627,400	13,778,871	<ul style="list-style-type: none"> ▪ Seneca Universal ▪ Marvel Tech ▪ Avcorp ▪ Venasolutions 	312,473.50	21	100,000 to 500,000
2	Gordon Cheng	08/02/2012	Site Coordinator, Bretton Pneumatics Sdn Bhd	48,001 to 60,000	28,488,000	10,921,533	<ul style="list-style-type: none"> ▪ Seneca Universal ▪ Marvel Tech ▪ Avcorp ▪ Venasolutions 	316,458.40	18	200,000 to 600,000
3	Suki Cheng	16/02/2012	Marking, Usaha Raya Sdn Bhd	24,001 to 36,000	28,647,400	10,029,492	<ul style="list-style-type: none"> ▪ Seneca Universal ▪ Avcorp ▪ Venasolutions 	215,762.34	14	200,000 to 500,000
4	Jeanine Cheng	13/02/2012	Executive, Travers Manufacturing Sdn Bhd	24,001 to 36,000	31,246,400	10,776,382	<ul style="list-style-type: none"> ▪ Seneca Universal ▪ Marvel Tech ▪ Avcorp ▪ Venasolutions 	129,133.00	14	100,000 to 500,000
5	Tris Kwan	08/02/2012	Clerk, Travers Manufacturing Sdn Bhd	Less than 12,000	42,913,200	13,878,717	<ul style="list-style-type: none"> ▪ Seneca Universal ▪ Marvel Tech ▪ Avcorp ▪ Venasolutions ▪ Cato Gold 	279,917.65	22	100,000 to 600,000

Exhibit 9


Large or Unusual Settlement of Securities Transactions in Cash Form

Large or unusual settlement of securities transactions in cash form



**Ken Tse
(240768)**
Age: 40
CEO – Mega Sena Sdn Bhd
Trading limit: RM5 mil
Gross annual income: >RM200,000
A/C opened on 16/12/11

Date	Cash banked in (RM)	Purpose
19/12/11	40,000.00	Trust
19/12/11	70,000.00	Trust
12/01/12	22,655.71	Contra losses
21/02/12	699,000.00	Purchase & trust
21/02/12	1,000.00	Purchase
09/03/12	25,000.00	Purchase & interest
26/03/12	3,069,517.00	Purchase
26/03/12	958,361.54	Purchase
23/04/12	4,507,000.00	Purchase
Total	9,392,534.25	



**Everdeen Low
(222511)**
Age: 59
Director – Luxe Lifestyle Sdn Bhd
Trading limit: RM2 mil
Gross annual income: RM100,001 to RM200,000
A/C opened on 10/3/08

Date	Cash banked in (RM)	Purpose
17/01/12	66,182.40	Purchase
08/02/12	1,000,000.00	Trust
27/02/12	72,543.00	Contra losses
07/03/12	396,137.26	Contra losses
22/03/12	900,000.00	Contra losses
26/03/12	23,356.00	Contra losses
09/04/12	210,698.00	Contra losses
10/04/12	3,208.00	Contra losses
18/04/12	500,000.00	Trust
Total	3,172,124.66	