

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

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**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

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## COMPANY NUMBER (94613-X)

## HONG LEONG ASSURANCE BERHAD

(Incorporated in Malaysia)

### DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 30 June 2010.

### PRINCIPAL ACTIVITIES

The Company is engaged in the underwriting of life and general insurance businesses. There have been no significant changes to the nature of these activities during the financial year other than as disclosed in Note 13 and Note 37 to the financial statements.

### FINANCIAL RESULTS

	<b>RM'000</b>
Profit for the financial year	166,812

### DIVIDENDS

The amount of dividends paid or declared by the Company since the end of the previous financial year, was as follows:

	<b>RM'000</b>
Dividend paid on 23 June 2010 in respect of the financial year ended 30 June 2010:	
- Tax-exempt interim dividend of 1.06 sen per share	2,119
- Single-tier interim dividend in-specie of 73.94 sen per share	147,881
	<u>150,000</u>

The Directors do not recommend any final dividend to be paid for the financial year ended 30 June 2010.

### RESERVES AND PROVISIONS

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

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**DIRECTORS' REPORT (CONT'D)**

**PROVISION FOR INSURANCE LIABILITIES**

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital (“RBC”) Framework for licensed insurers issued by Bank Negara Malaysia (“BNM”).

**BAD AND DOUBTFUL DEBTS**

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the Company inadequate to any substantial extent.

**CURRENT ASSETS**

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ensure that any current assets, which were unlikely to be realised in the ordinary course of business, their values are shown in the accounting records of the Company have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Company misleading.

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**DIRECTORS' REPORT (CONT'D)**

**VALUATION METHODS**

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

**CONTINGENT AND OTHER LIABILITIES**

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

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

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet their obligations as and when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

**CHANGE OF CIRCUMSTANCES**

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

## **COMPANY NUMBER (94613-X)**

## **HONG LEONG ASSURANCE BERHAD**

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## **DIRECTORS' REPORT (CONT'D)**

### **ITEMS OF AN UNUSUAL NATURE**

The results of the operations of the Company during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the period in which this report is made, other than as disclosed in Note 13 and Note 37 to the financial statements.

### **CORPORATE GOVERNANCE**

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholders' value, whilst taking into account the interest of other stakeholders.

#### **A. Board Responsibilities and Oversight**

##### **The Board of Directors ("Board")**

The Board's responsibilities include:-

- (i) Approving the Company's strategic plan and the annual budget;
- (ii) Overseeing the conduct of the business including investment strategies;
- (iii) Supervising the implementation of a risk management framework, which includes the appropriate internal control and management information systems;
- (iv) Approving the appointment, remuneration and succession plans for senior management;
- (v) Approving the operating policies and transactions reserved for it within the risk management framework; and
- (vi) Approving investors' relation policies and supervising the implementation of related programmes.

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### **HONG LEONG ASSURANCE BERHAD**

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **A. Board Responsibilities and Oversight (cont'd)**

##### **The Board of Directors ("Board") (cont'd)**

The Board comprises the Chairman who is a Non-Independent Non-Executive Director, an Executive Director, two Non-Independent Non-Executive Directors and three Independent Non-Executive Directors. In accordance with the Insurance Act, 1996, all Directors are appointed to the Board after prior approval has been obtained from BNM.

During the financial year ended 30 June 2010, seven (7) Board Meetings were held and the attendance of the Directors was as follows:-

<b>Directors</b>	<b>Attendance</b>
YBhg Tan Sri Quek Leng Chan (Chairman)	7/7
YBhg Datuk Dr Hussein bin Awang	7/7
Mr Tan Keok Yin	7/7
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong	7/7
Mr Choong Yee How	6/7
Mr Quek Kon Sean	7/7
Ms Loh Guat Lan (Appointed on 1 September 2009)	6/6

##### **Supply of Information**

To fulfill the responsibilities set out above, all Directors have access to the advice and services of the Company Secretary as well as to independent professional advice, including the Internal Auditors.

##### **Re-election**

All Directors are required to submit themselves for re-election every three years.

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## **HONG LEONG ASSURANCE BERHAD**

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **A. Board Responsibilities and Oversight (cont'd)**

##### **Nominating Committee**

The present members of the Nominating Committee are as follows:-

YBhg Datuk Dr Hussein bin Awang (Chairman, Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director)

Mr Tan Keok Yin (Independent Non-Executive Director)

YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong  
(Independent Non-Executive Director)

Mr Choong Yee How (Non-Independent Non-Executive Director)

The Nominating Committee's functions and responsibilities are set out in the terms of reference as follows:-

- (i) Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer;
- (ii) Review and recommend to the Board all Board appointments and re-appointments and removals including of the Chief Executive Officer;
- (iii) Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required;
- (iv) Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual director to the effectiveness of the Board and various Board committees based on criteria approved by the Board;
- (v) Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities; and
- (vi) Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2010, two (2) Nominating Committee Meetings were held and the meetings were attended by all the members.



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**DIRECTORS' REPORT (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**B. Directors' Remuneration**

**Remuneration Committee**

The present members of the Remuneration Committee are as follows:-

YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong

(Chairman, Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director)

Mr Tan Keok Yin (Independent Non-Executive Director)

The Remuneration Committee's functions and responsibilities are set out in the terms of reference as follows:-

- (i) Recommend to the Board the framework governing the remuneration of the:-
  - Directors;
  - Chief Executive Officer; and
  - key senior management officers.
- (ii) Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- (iii) Review the remuneration packages of key senior management officers.

During the financial year ended 30 June 2010, one (1) Remuneration Committee Meeting was held and the meeting was attended by all the members.

**Procedure**

The fees of Directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at the Annual General Meeting.

**Disclosure**

The remuneration of the Directors is set out in Note 35(c) to the financial statements.

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## **HONG LEONG ASSURANCE BERHAD**

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## **DIRECTORS' REPORT (CONT'D)**

## **CORPORATE GOVERNANCE (CONT'D)**

### **C. Accountability and Audit**

#### **Board Audit and Risk Management Committee (“BARMC”)**

The financial reporting and internal control system of the Group is overseen by the BARMC, which comprises the following members:-

YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong (Chairman,  
Independent Non-Executive Director)

YBhg Datuk Dr Hussein Awang (Independent Non-Executive Director)

Mr Tan Keok Yin (Independent Non-Executive Director)

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:-

- (i) To review the audit plan, audit charter and budget of the Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisation structure for the internal auditors to achieve their audit objectives;
- (ii) To review the overall internal management system, in particular, financial status of the Company, its internal controls in critical areas of operations, risks and implications of the internal audit findings and recommendations;
- (iii) To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Chief Internal Auditor and senior officers of the internal audit functions;
- (iv) To review with the external auditors, the scope of their audit and audit reports, including their findings, issues or reservations arising from the interim and financial audits and any action to be taken by management;
- (v) To consider the provision of non-audit services by the external auditors;

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**DIRECTORS' REPORT (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Board Audit and Risk Management Committee (“BARMC”) (cont'd)**

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:- (cont'd)

- (vi) To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors and to review and assess fees paid to the external auditors for their audit and non-audit services;
- (vii) To review the Chairman’s statement, corporate governance disclosures in the Directors’ report, interim financial reports and all representation letters by management in relation to the financial audit of the Company;
- (viii) To review related party transactions and conflict of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity;
- (ix) To ensure prompt publication of annual report of the Company. The Board is duty bound to ensure that accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with frequent reviews of the adequacy of provisions and to ensure supervisory issues raised by BNM are resolved in a timely manner;
- (x) To report and recommend to the Board measures:
  - (a) to identify all critical business risks faced by the Company;
  - (b) to improve risk management strategies and policies proposed by management; and
  - (c) to monitor and evaluate that risks have been managed effectively.
- (xi) To review the implementation of the Risk Management Framework and risk management activities and reports; and
- (xii) Other functions as may be determined by the Board.

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**DIRECTORS' REPORT (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Board Audit and Risk Management Committee ("BARMC") (cont'd)**

During the financial year ended 30 June 2010, eight (8) BARMC meetings were held and the attendance of the Directors was as follows:-

<b>Directors</b>	<b>Attendance</b>
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong	7/8
YBhg Datuk Dr Hussein Awang	7/8
Mr Tan Keok Yin	8/8

The Group Chief Internal Auditor reports directly to the BARMC and provides the BARMC and management with an independent assessment of the adequacy of risk management practice. Significant breaches and deficiencies identified are discussed with the BARMC and remedial actions taken by management are reported to and monitored by the BARMC.

**Financial Reporting**

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at Board meetings.

**Internal Controls and Operational Risk Management**

The Board has overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations.

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**DIRECTORS' REPORT (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Internal Controls and Operational Risk Management (cont'd)**

The Company has established authority limits and internal controls to manage operational risks. Authority limits and the system of internal controls are reviewed regularly to ensure continuous improvement in the control environment.

The Company has increased the security controls for its Information Technology systems and has in place business resumption and contingency plans that can ensure continued operation of mission critical functions.

**Management Accountability**

The Company operates in an organisational structure and environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment. Human resource procedures of the Company provide for the setting of goals and training of each employee. The Company conducts formal appraisals for each employee on an annual basis.

The Company has an office of Corporate Communications to guide its communication policy.

**Corporate Independence**

The Company has complied with BNM's Guidelines JPI/GPI 19 on Related Party Transactions. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 35 to the financial statements.

**Public Accountability**

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff of the Company are required to comply with the Code of Ethics and Conduct.

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**DIRECTORS' REPORT (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Relationship with Auditors**

The external auditors are appointed on the recommendation by the BARMC, who determines the remuneration of the external auditors. The external auditors meet with the BARMC to:-

- (i) Present the scope of the audit before the commencement of audit; and
- (ii) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

**DIRECTORATE**

The Directors in office since the date of the last report are:-

YBhg Tan Sri Quek Leng Chan  
YBhg Datuk Dr Hussein bin Awang  
Mr Tan Keok Yin  
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong  
Mr Choong Yee How  
Mr Quek Kon Sean  
Ms Loh Guat Lan (Appointed on 1 September 2009)

In accordance with Article 90 of the Company's Articles of Association, Ms Loh Guat Lan retires at the forthcoming Annual General Meeting and being eligible, offers herself for election.

In accordance with Article 109 of the Company's Articles of Association, YBhg Tan Sri Quek Leng Chan and Mr Tan Keok Yin retire by rotation from the Board and, being eligible, offer themselves for re-election.

In accordance with Section 129 of the Companies Act, 1965, YBhg Datuk Dr Hussein Awang retires and would not be seeking re-appointment at the forthcoming Annual General Meeting ("AGM"). Therefore, YBhg Datuk Dr Hussein Awang shall retire at the conclusion of the forthcoming AGM.

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**DIRECTORS' REPORT (CONT'D)**

**DIRECTORS' INTERESTS**

No Director holding office at the end of the financial year had any beneficial interest in the ordinary shares/warrants/options/irredeemable convertible unsecured loan stocks of the Company and/or related corporations during the financial year ended 30 June 2010 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for YBhg Tan Sri Quek Leng Chan, Mr Choong Yee How and Mr Quek Kon Sean whose beneficial interests are disclosed in the Directors' Report of Hong Leong Financial Group Berhad, the penultimate holding company, and Ms Loh Guat Lan, whose beneficial interest is disclosed in the Directors' Report of HLA Holdings Sdn Bhd, the immediate holding company, as provided for under Section 134 of the said Act whilst the beneficial interests of YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong are as follows:-

**Shareholdings in which Directors have direct interests**

**Number of ordinary shares to be  
issued arising from the exercise of warrants/  
irredeemable convertible unsecured loan stocks**

	<b>Nominal value per share RM</b>	<b>As at 01/07/2009</b>	<b>Acquired</b>	<b>Sold</b>	<b>As At 30/06/2010</b>
Shareholdings in which Director has direct interests:					
<b>Interests of YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong in:</b>					
Hong Leong Industries Berhad	0.5	8,000	-	-	8,000
Hong Leong Financial Group Berhad	1.0	268,643	-	-	268,643
Hume Industries (Malaysia) Berhad	1.0	5,333	-	(5,333)	-
GuocoLand (Malaysia) Berhad	0.5	151,171	-	-	151,171
Hong Leong Bank Berhad	1.0	30,000	-	-	30,000

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**DIRECTORS' REPORT (CONT'D)**

**DIRECTORS' INTERESTS (CON'D)**

Shareholdings in which Directors have direct interests  
Number of ordinary shares to be  
issued arising from the exercise of warrants/  
irredeemable convertible unsecured loan stocks

	<b>Nominal value per share RM</b>	<b>As at 01/07/2009</b>	<b>Acquired</b>	<b>Sold</b>	<b>As At 30/06/2010</b>
Shareholdings in which Director has indirect interests:					
<b>Interests of YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong in:</b>					
Hong Leong Company (Malaysia) Berhad	1.0	154,650	-	-	154,650
Hong Leong Financial Group Berhad	1.0	11,683,479	-	-	11,683,479
Hong Leong Bank Berhad	1.0	155,000	-	-	155,000
Hong Leong Industries Berhad	0.5	2,297,848	-	-	2,297,848
Narra Industries Berhad	1.0	10,000	-	-	10,000
GuocoLand (Malaysia) Berhad	0.5	3,335,485	-	-	3,335,485



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**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONT'D)**

**DIRECTORS' BENEFITS**

No Director of the Company has since the end of the previous financial year received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisition and/or disposal of stocks and shares, stocks in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or the provision of services, including but not limited to project and sales management and any other management and consultancy services; and/or the provision of construction contracts, leases, tenancy, dealership and distributorship agreements; and/or the provision of treasury functions, advances and the conduct of normal trading, insurance, investment, stockbroking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interest.

There were no arrangements during and at the end of the financial year which had the object of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares or options over shares or debentures of the Company or any other body corporate other than the options granted pursuant to the Executive Share Option Scheme of Hong Leong Financial Group Berhad, the penultimate holding company of the Company.

## **COMPANY NUMBER (94613-X)**

## **HONG LEONG ASSURANCE BERHAD**

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## **DIRECTORS' REPORT (CONT'D)**

### **SIGNIFICANT EVENTS DURING THE YEAR**

- (a) On 8 April 2009, the penultimate holding company, Hong Leong Financial Group Berhad ("HLFG") announced its proposal to undertake a rationalisation scheme to streamline and consolidate HLFG's equity holdings in its insurance company in Hong Kong and takaful operator under HLA Holdings Sdn Bhd ("HLAH"), an intermediate insurance holding company, wholly-owned by HLFG ("Proposed Rationalisation").

Pursuant to the Proposed Rationalisation, the relevant parties had on 8 April 2009 entered into sale and purchase agreements in relation to the transfers/acquisition of the following equity interests:

- (i) Proposed transfer of 100% equity interest in Hong Leong Insurance (Asia) Limited ("HLIA") from Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary of Hong Leong Assurance Berhad ("HLA"), to HLAH ("Proposed HLIA Transfer") for a cash consideration of RM71,500,497. The Proposed HLIA Transfer was completed on 31 July 2009; and
  - (ii) Proposed transfer of 10% equity interest in Hong Leong Tokio Marine Takaful Berhad ("HLTMT") from HLA to HLAH ("Proposed Transfer of 10% in HLTMT") for a cash consideration of RM9,592,954. The Proposed Transfer of 10% of HLTMT was completed on 1 September 2009.
- (b) On 16 December 2009, HLFG announced that it had entered into a sale and purchase agreement with HLAH for the transfer of 100% equity interest in HLA from HLFG to HLAH ("the Transfer") for a cash consideration of RM505 million. The proposed transfer was completed on 1 January 2010.
- (c) On 23 February 2010, the Company had placed its wholly-owned subsidiary, Allstate Health Benefits Sdn Bhd under Members' Voluntary Winding-up, pursuant to Section 254(1)(b) of the Companies Act, 1965.

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### **HONG LEONG ASSURANCE BERHAD**

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## **DIRECTORS' REPORT (CONT'D)**

### **SIGNIFICANT EVENTS DURING THE YEAR (CONT'D)**

- (d) On 18 June 2010, Hong Leong Investment Bank Berhad, on behalf of HILFG, announced that HLAH and HLA had entered into various agreements with Mitsui Sumitomo Insurance Company, Limited ("MSIJ") and its subsidiary, MSIG Insurance (Malaysia) Bhd ("MSIM"), in relation to the insurance businesses of HLA and MSIM ("Proposed Strategic Partnership").

The Proposed Strategic Partnership involves the following:

- (i) Proposed merger of both non-life businesses of HLA and MSIM via a transfer of the non-life business of HLA (except for certain excluded assets and liabilities) to MSIM for a consideration of RM618,646,291 to be satisfied via the issuance of such number of new shares as shall represent 30% of the enlarged ordinary issued and paid-up capital of MSIM, in accordance with the terms of the conditional business transfer agreement dated 18 June 2010 ("Proposed Non-Life Business Merger");
- (ii) Upon completion of the Proposed Non-Life Business Merger, HLAH will dispose of 60,000,000 ordinary shares of RM1.00 each (representing a 30% equity interest) in HLA to MSIJ for a cash consideration of RM940 million in accordance with the terms of the conditional sale and purchase agreement dated 18 June 2010; and
- (iii) Upon completion of the Proposed Strategic Partnership, HILFG (through its subsidiary) will effectively hold a 30% equity interest in the enlarged MSIM entity (i.e. the combined non-life Business of HLA and MSIM) and a 70% equity interest in HLA (which will only be involved in life business). MSIJ will hold the remaining 30% equity interest in HLA.

### **ULTIMATE HOLDING COMPANIES**

The immediate and ultimate holding companies are HLA Holdings Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

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**DIRECTORS' REPORT (CONT'D)**

**AUDITORS**

The auditors, Messrs PricewaterhouseCoopers, have indicated their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their circular of resolution.

.....  
Choong Yee How

.....  
Loh Guat Lan

Petaling Jaya  
3 September 2010

**COMPANY NUMBER (94613-X)****HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**BALANCE SHEET AS AT 30 JUNE 2010**

	Note	2010 RM'000	2009 RM'000
<b>ASSETS</b>			
<b>General business and</b>			
<b>Shareholders' fund assets</b>			
Property, plant and equipment	3(a)	2,658	14,619
Prepaid lease payments	4	589	1,362
Intangible assets	5	1	4,195
Subsidiary companies	6	-	75,032
Investments	8(a)	-	344,975
Securities available-for-sale	9(a)	73,977	-
Fixed and call deposits	10(a)	228,331	219,119
Non-current assets held-for-sale	13	346,595	60
Deferred tax assets	14	-	1,301
Receivables	15	188,457	123,044
Cash and bank balances		6,695	22,210
<b>Total General business and</b>			
<b>Shareholders' fund assets</b>		847,303	805,917
<b>Total Life business assets (page 23)</b>		5,995,115	5,070,674
<b>TOTAL ASSETS</b>		<u>6,842,418</u>	<u>5,876,591</u>
<b>LIABILITIES</b>			
<b>General business and</b>			
<b>Shareholders' fund liabilities</b>			
Claims liabilities	16(a)	-	161,661
Payables	17(a)	398	59,177
Tax payable		25,550	15,268
Deferred tax liabilities	14	164	-
Liabilities directly associated with assets classified as held-for-sale	13	320,102	-
<b>Total General business and</b>			
<b>Shareholders' fund liabilities</b>		346,214	236,106
<b>Total Life business liabilities (page 23)</b>		854,655	567,282
		<u>1,200,869</u>	<u>803,388</u>

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**BALANCE SHEET AS AT 30 JUNE 2010 (CONT'D)**

	<b>Note</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
Premium liabilities	18	-	84,837
Life policyholders' fund	19	4,668,935	4,137,452
Investment-linked unitholders' fund	30(a)	471,525	365,940
		<hr/>	<hr/>
		5,140,460	4,588,229
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>6,341,329</b>	<b>5,391,617</b>
		<hr/>	<hr/>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	20	200,000	200,000
Reserves	21	301,089	284,974
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>501,089</b>	<b>484,974</b>
		<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>6,842,418</b>	<b>5,876,591</b>
		<hr/> <hr/>	<hr/> <hr/>

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

**COMPANY NUMBER (94613-X)****HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

	<b>Note</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>Operating revenue</b>	22		
- Continuing operations		1,330,330	1,176,924
- Discontinued operations		340,943	322,483
		<u>1,671,273</u>	<u>1,499,407</u>
<b>Continuing operations</b>			
Shareholders' fund:			
Management expenses	24	(2,945)	(1,958)
Investment income	25	5,254	17,907
Other operating expense - net	26	(1,824)	(1,368)
		<u>485</u>	<u>14,581</u>
Surplus transferred from:			
- Life business (page 25)		175,000	57,000
<b>Profit before taxation</b>		<u>175,485</u>	<u>71,581</u>
Taxation	27	(33,391)	(11,421)
<b>Profit for the financial year from continuing operations</b>		<u>142,094</u>	<u>60,160</u>
<b>Discontinued operations</b>			
Surplus transferred from:			
- General business (pages 22)		31,395	33,523
<b>Profit before taxation</b>		<u>31,395</u>	<u>33,523</u>
Taxation	27	(6,677)	(9,640)
<b>Profit for the financial year from discontinued operations</b>		<u>24,718</u>	<u>23,883</u>
<b>Profit for the financial year</b>		<u>166,812</u>	<u>84,043</u>
Earnings per ordinary share (sen)	29	<u>83.41</u>	<u>42.02</u>

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

COMPANY NUMBER (94613-X)

HONG LEONG ASSURANCE BERHAD

(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Discontinued operations

	Note	Fire		Motor		Marine Aviation & Transit		Miscellaneous		Total	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Gross premium	22	121,660	114,191	54,899	48,062	29,063	29,827	118,869	112,646	324,491	304,726
Reinsurance		(50,739)	(47,909)	(3,006)	(4,966)	(14,583)	(12,931)	(33,544)	(33,687)	(101,872)	(99,493)
Net premium		70,921	66,282	51,893	43,096	14,480	16,896	85,325	78,959	222,619	205,233
Decrease/(increase) in premium liabilities	18	1,357	8,745	(6,990)	11,268	(23)	4,318	2,820	14,395	(2,836)	38,726
Earned premium		72,278	75,027	44,903	54,364	14,457	21,214	88,145	93,354	219,783	243,959
Net claims incurred	23	(22,411)	(21,020)	(40,276)	(50,962)	(12,090)	(12,256)	(60,089)	(59,675)	(134,866)	(143,913)
Net commission		(7,454)	(7,949)	(5,674)	(4,351)	(1,181)	(1,319)	(11,946)	(11,619)	(26,255)	(25,238)
Underwriting surplus/(deficit) before management expenses		42,413	46,058	(1,047)	(949)	1,186	7,639	16,110	22,060	58,662	74,808
Management expenses	24									(52,968)	(56,722)
Underwriting surplus										5,694	18,086
Investment income	25									16,452	17,757
Other operating income/(expenses) - net	26									9,249	(2,320)
Surplus transferred to Income Statement (page 21)										31,395	33,523

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



**COMPANY NUMBER (94613-X)****HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**LIFE FUND BALANCE SHEET AS AT 30 JUNE 2010**

	<b>Note</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>ASSETS</b>			
Property, plant and equipment	3(b)	82,538	83,407
Prepaid lease payments	4	1,401	1,427
Intangible assets	5	2,517	5,505
Investment properties	7	231,680	221,600
Investments	8(b)	-	2,995,221
Securities	9(b)		
- Available-for-sale		3,369,126	-
- Held-to-maturity		215,862	-
Fixed and call deposits	10(b)	875,156	705,977
Loans	11	655,246	620,281
Derivative assets	12	896	-
Receivables	15	77,978	68,856
Cash and bank balances		6,919	1,782
Investment-linked business assets	30(a)	475,796	366,618
<b>TOTAL ASSETS</b>		<b>5,995,115</b>	<b>5,070,674</b>
<b>LIABILITIES</b>			
Provision for outstanding claims	16(b)	46,617	35,863
Payables	17(a)	602,969	471,081
Derivative liabilities	12	5,112	-
Tax payable		5,791	1,780
Deferred tax liabilities	14	14,887	200
Amount due to General Insurance Fund		-	577
Amount due to Shareholders' Fund		175,008	57,103
Investment-linked business liabilities	30(a)	4,271	678
<b>TOTAL LIABILITIES</b>		<b>854,655</b>	<b>567,282</b>
Life policyholders' fund	19	4,668,935	4,137,452
Investment-linked unitholders' fund	30(a)	471,525	365,940
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>5,995,115</b>	<b>5,070,674</b>

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

**COMPANY NUMBER (94613-X)****HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**LIFE FUND REVENUE ACCOUNT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010****Continuing operations**

		<b>2010</b>	<b>2009</b>
	<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Gross premium</b>	22	1,071,373	921,704
Reinsurance		(55,315)	(59,369)
<b>Net premium</b>		<u>1,016,058</u>	<u>862,335</u>
<b>Benefit paid/payable:</b>			
Maturities		(60,760)	(115,359)
Surrenders		(144,910)	(119,223)
Death claims		(38,144)	(28,445)
Other claims		(38,876)	(41,157)
Cash bonus		(131,774)	(86,648)
		<u>(414,464)</u>	<u>(390,832)</u>
		601,594	471,503
Commissions and agency expenses		(185,228)	(151,777)
Management expenses	24	(71,601)	(66,165)
		<u>344,765</u>	<u>253,561</u>
Investment income	25	253,703	237,313
Other operating income/(expenses) - net	26	73,408	(32,600)
		<u>671,876</u>	<u>458,274</u>
<b>Surplus from operations before taxation</b>			
Taxation	27	(24,802)	(15,012)
		<u>647,074</u>	<u>443,262</u>
<b>Surplus after taxation</b>			
<b>Increase in Investment-linked fund</b>	30(b)	(105,585)	(51,599)
		<u>541,489</u>	<u>391,663</u>

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**LIFE FUND REVENUE ACCOUNT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010  
(CONT'D)**

**Continuing operations (cont'd)**

	<b>Note</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>Life policyholders' fund at the beginning of the financial year</b>			
- As previously stated		4,137,452	3,802,789
- Changes in accounting policies	2(z)	11,986	-
<b>- As restated</b>		<u>4,149,438</u>	<u>3,802,789</u>
Transferred to Income Statement (page 21)		(175,000)	(57,000)
Movements in fair value for securities available-for-sale, net of deferred tax		<u>153,008</u>	<u>-</u>
<b>Life policyholders' fund at the end of the financial year</b>		<u><u>4,668,935</u></u>	<u><u>4,137,452</u></u>

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

COMPANY NUMBER (94613-X)

HONG LEONG ASSURANCE BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

		Issued and fully paid ordinary shares of RM1 each	Non- Distributable Available- for-sale reserve	Distributable Retained earnings	Total	
	Note	No. of shares '000	Share capital RM'000	RM'000	RM'000	
<b>At 1 July 2008</b>		200,000	200,000	-	244,431	444,431
Profit for the financial year		-	-	-	84,043	84,043
Dividend for the financial year ended 30 June 2009	28	-	-	-	(43,500)	(43,500)
<b>At 30 June 2009</b>		200,000	200,000	-	284,974	484,974
- changes in accounting policies	2(z)	-	-	(2,531)	(4,828)	(7,359)
<b>- as restated 1 July 2009</b>		200,000	200,000	(2,531)	280,146	477,615
Profit for the financial year		-	-	-	166,812	166,812
Movement in fair value for securities available-for-sale, net of deferred tax		-	-	6,662	-	6,662
Dividend for the financial year ended 30 June 2010	28	-	-	-	(150,000)	(150,000)
<b>At 30 June 2010</b>		200,000	200,000	4,131	296,958	501,089

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

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	206,880	105,104
Adjustments for:-		
Allowance for/(writeback) of doubtful debts	1,679	(11)
Bad debts written off	239	1,969
Recovery of bad debts written off	(43)	-
Depreciation of property, plant and equipment	6,986	5,883
Amortisation of prepaid lease payments	42	42
Amortisation of intangible assets	6,612	8,862
Property, plant and equipment written off	1,463	-
Gain on sale of property, plant and equipment	(246)	(318)
Increase/(decrease) in premium liabilities	2,836	(38,726)
Life fund operating surplus before taxation	671,876	458,274
Transfer of Life fund surplus to Income Statement	(175,000)	(57,000)
(Gain)/loss on sale of investments	(45,944)	29,291
Loss on liquidation of subsidiary	2,386	-
Decrease in value of investments in investment-linked business	-	(4,522)
Accretion of discount	(18,849)	(15,080)
Write down of cost of quoted investments	-	4,396
Allowance for diminution in value of investments	-	12,451
Fair value loss on investments at held-for-trading	(38,585)	-
Fair value gain of investment properties	(10,080)	(10,000)
Fair value loss on derivatives	3,778	-
Unrealised foreign exchange loss	17,327	7,561
Realised foreign exchange gain	(12,307)	(462)
Cash flow generated before working capital changes	<u>621,050</u>	<u>507,714</u>

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010  
(CONT'D)**

	Note	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D)</b>			
Changes in assets and liabilities:-			
Proceeds from sale and redemption of investments		1,241,623	700,898
Purchase of investments		(1,404,303)	(1,299,908)
(Increase)/decrease in fixed and call deposits		(341,723)	246,776
Decrease in other receivables		67,314	46,427
Increase in other payables		38,217	15,382
Increase in claims liabilities/outstanding claims		26,671	3,713
Increase in loans		(34,965)	(63,669)
		<u>(407,166)</u>	<u>(350,381)</u>
Cash generated from operations		213,884	157,333
Income taxes paid		(44,467)	(42,879)
Net cash generated from operating activities	31	<u>169,417</u>	<u>114,454</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		569	420
Purchase of property, plant and equipment		(9,520)	(78,547)
Purchase of intangible assets		(131)	(370)
Net cash used in investing activities	31	<u>(9,082)</u>	<u>(78,497)</u>

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010  
(CONT'D)**

	<b>Note</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid		(150,000)	(43,500)
Net cash used in financing activities	31	<u>(150,000)</u>	<u>(43,500)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		10,335	(7,543)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>			
		<u>24,856</u>	<u>32,399</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>			
	31	<u><u>35,191</u></u>	<u><u>24,856</u></u>

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

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. PRINCIPAL ACTIVITIES**

The Company is engaged in the underwriting of life and general insurance businesses. There have been no significant changes to the nature of these activities during the financial year other than as disclosed in Note 13 and Note 37 to the financial statements.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are consistent with those adopted in the previous financial year, unless otherwise indicated in the accounting policies below:-

#### **(a) Basis of preparation of the financial statements**

The financial statements of the Company have been prepared under the historical cost convention, except as disclosed in this summary of significant accounting policies. The financial statements comply with the Financial Reporting Standards (“FRS”), which are the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, modified by Bank Negara Malaysia (“BNM”) in respect of the following areas as specified in the Risk-Based Capital (“RBC”) Framework issued by BNM:

- valuation of investments as disclosed in Note 2(g) to the financial statements; and
- adjustments arising from changes in accounting policies for investments and valuation of insurance liabilities following the implementation of the RBC Framework as disclosed in Note 2(z) of the financial statements, which have been made to the opening balances as at 1 July 2009 in the financial statements, instead of a retrospective adjustment as at 1 July 2008 as well.

The financial statements also comply with the provisions of the Companies Act, 1965, the Insurance Act, 1996 and other relevant Guidelines and Circulars issued by BNM in all material aspects.

The preparation of financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. Although these estimates are based on the Directors’ best knowledge of current events and actions, actual results may differ from estimates.



**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(a) Basis of preparation of the financial statements (cont'd)**

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes:-

Note 2(k) - Claims liabilities

Note 2(l) - Actuarial valuation of Life Policyholders' fund

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective**

The following are standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective:

- The revised FRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010) prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. 'Non-owner changes in equity' are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply this standard from financial periods beginning on 1 July 2010 and it is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (cont'd)**

- FRS 139 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted under strict circumstances. The amendments to FRS 139 provide further guidance on eligible hedged items. The amendment provides guidance for two situations. On the designation of a one-sided risk in a hedged item, the amendment concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The improvement to FRS 139 clarifies that the scope exemption in FRS 139 only applies to forward contracts but not options for business combinations that are firmly committed to being completed within a reasonable timeframe. The Company will apply this standard from financial periods beginning on 1 July 2010.
- The amendments to FRS 132 Financial Instruments: Presentation and FRS 101 (Revised) Presentation of Financial Statements - Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2010) require entities to classify puttable financial instruments and instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation as equity, if they have particular features and meet specific conditions. The Company will apply this standard from financial periods beginning on 1 July 2010.

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (cont'd)**

- The amendments to FRS 139 Reclassification of Financial Assets (effective for annual periods beginning on or after 1 January 2010). This amendment allows an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss (“FVTPL”) by the entity upon initial recognition) out of the FVTPL category in particular circumstances. It also allows an entity to transfer from the available-for-sale (“AFS”) to the loans and receivables (“LAR”) category for which have met the definition of LAR (if the financial assets had not been designated as AFS), if the entity has the intention and ability to hold that financial asset for foreseeable future. The Company will apply this standard from financial periods beginning on 1 July 2010. This amendment is not expected to have significant changes to the Company’s accounting policies.
- FRS 4 Insurance Contract (effective for annual periods beginning on or after 1 January 2010) allows entities to continue with their existing accounting policies for insurance contracts if those policies meet certain minimum criteria. One of the minimum criteria is that the amount of the insurance liability is subject to a liability adequacy test. The Company will apply this standard from financial periods beginning on 1 July 2010.
- FRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010) provides information to users of financial statements about an entity’s exposure to risks and how the entity manages those risks. The improvement FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the income statement. The Company will apply this standard from financial periods beginning on 1 July 2010.

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (cont'd)**

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company will apply this standard from financial periods beginning on 1 July 2010.
  
- The following standards will be effective for annual periods beginning on or after 1 January 2010. The Company will apply these standards from financial periods beginning on 1 July 2010. The Company has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the standard on the financial statements of the Company.
  - (i) FRS 139 Financial Instruments: Recognition and Measurement
  - (ii) FRS 4 Insurance Contracts
  - (iii) FRS 7 Financial Instruments: Disclosures
  
- IC Interpretation 17 "Distribution of Non-cash Assets to Owners" (effective from 1 July 2010) provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. FRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company will apply this IC Interpretation from financial periods beginning 1 July 2010.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (cont'd)**

- FRS 5 “Non-current Assets Held-for-Sale and Discontinued Operations” Improvement effective from 1 January 2010 clarifies that FRS 5 disclosures apply to non-current assets or disposal groups that are classified as held-for-sale and discontinued operations. The Company will apply this standard from financial periods beginning 1 July 2010.
- FRS 107 “Statement of Cash Flows” (effective from 1 January 2010) clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities. The Company will apply this standard from financial periods beginning 1 July 2010. It is not expected to have a material impact on the Company’s financial statements.
- FRS 110 “Events After the Balance Sheet Date” (effective from 1 January 2010) reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time. The Company will apply this standard from financial periods beginning 1 July 2010. It is not expected to have a material impact on the Company’s financial statements.
- FRS 116 “Property, Plant and Equipment” (consequential amendment to FRS 107 “Statement of Cash Flows”) (effective from 1 January 2010) requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held-for-sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The Company will apply this standard from financial periods beginning 1 July 2010. It is not expected to have a material impact on the Company’s financial statements.

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**HONG LEONG ASSURANCE BERHAD**

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (cont'd)**

- FRS 117 “Leases” (effective from 1 January 2010) clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117. The Company will apply this standard from financial periods beginning 1 January 2010. It is not expected to have a material impact on the Company’s financial statements.
- FRS 118 “Revenue” (effective from 1 January 2010) provides more guidance when determining whether an entity is acting as a ‘principal’ or as an ‘agent’. The Company will apply this standard from financial periods beginning 1 January 2010. It is not expected to have a material impact on the Company’s financial statements.
- FRS 119 “Employee Benefits” (effective from 1 January 2010) clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The Company will apply this standard from financial periods beginning 1 July 2010. It is not expected to have a material impact on the Company’s financial statements.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (cont'd)**

- FRS 138 “Intangible Assets” Improvement effective from 1 January 2010 clarifies that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for mail order catalogues when the entity has access to the catalogues and not when the catalogues are distributed to customers. It confirms that the unit of production method of amortisation is allowed. The Company will apply this standard from financial periods beginning 1 July 2010. The amendment will not have an impact on the Company’s operations, as all intangible assets are amortised using the straight-line method.
- FRS 140 “Investment Property” (effective from 1 January 2010) requires assets under construction/development for future use as investment property to be accounted as investment property rather than property, plant and equipment. Where the fair value model is applied, such property is measured at fair value. However, where fair value is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and fair value becomes reliably measurable. It also clarifies that if a valuation obtained for an investment property held under lease is net of all expected payments, any recognised lease liability is added back in order to determine the carrying amount of the investment property under the fair value model. The Company will apply this improvement from financial periods beginning 1 July 2010. It is not expected to have a material impact on the Company’s financial statements.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(c) Intangible assets**

##### **Computer software**

Computer software licenses acquired separately are capitalised on the basis of the costs incurred to acquire and bring the asset for its intended use. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

Costs that are directly associated with knowledge based software and computer applications which are unique to the requirements of the insurance business are recognised as 'Intangible Assets'. These software and applications are expected to generate economic benefits beyond one year. Direct attributable costs include the software development employee costs and an appropriate portion of relevant overheads to prepare the asset for its intended use. These costs are recognised as assets and amortised over their useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when it is incurred.

#### **(d) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the carrying amount of the assets when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably estimated. All other repairs and maintenance are charged to the income statement or revenue accounts during the financial year which they are incurred.



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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(d) Property, plant and equipment and depreciation (cont'd)**

Freehold land and capital work-in-progress are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the assets to their residual values over the estimated useful lives, summarised as follows:

Leasehold buildings	Over the remaining period of the lease or 50 years whichever is shorter
Freehold buildings	50 years
Office renovation, equipment and furniture	5 – 10 years
Motor vehicles	5 years

Depreciation on assets identified as capital work-in-progress commence when the assets are ready for their intended use.

The residual value and useful lives of assets are reviewed and adjusted if appropriate at each balance sheet date.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(j) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are credited or charged to the income statement or revenue accounts.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(e) Prepaid lease payments**

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and the rewards are classified as operating leases, other than a property held under operating leases for investment purpose which meets the definition of an investment property on a property by property basis.

The minimum lease payments including up-front payments made for leasehold land and building are allocated between land and buildings elements in proportion to the relative fair values of leasehold interest in the land element and the buildings element at the inception of the lease.

Leasehold land that normally has an indefinite economic life and if title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The up-front payment made for the leasehold land represents prepaid lease payments that are amortised on a straight line basis over the lease term.

For a lease of land and buildings in which the amount that would initially be recognised for the land element is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and is accordingly classified as a finance or operating lease. In such a case, the economic life of the building is regarded as the economic life of the entire leased asset.

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(f) Investment properties**

Investment properties are properties which are held either for rentals or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs.

Investment properties are subsequently carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying value of the investment properties differ materially from the fair values. All gains or losses arising from a change in fair value of investment properties are recognised in the revenue accounts.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the revenue accounts in the financial year in which they arise.

#### **(g) Securities**

The Company classifies its securities into the following categories: held-for-trading, available-for-sale and held-to-maturity. Classification of the securities is determined at initial recognition and relates to the purpose for which the investments were acquired.

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

The Company classifies securities acquired for the purpose of selling in the short-term as held-for-trading or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This includes all securities held in the investment-linked funds.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(g) Securities (cont'd)**

##### **(i) Securities held-for-trading (cont'd)**

Securities classified as held-for-trading are stated at fair value and any gain or loss arising from the change in fair values is recognised in the income statement and/or revenue accounts. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

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

Securities available-for-sale are non-derivative financial assets that are not classified in any of the other categories and are measured at fair value.

Securities available-for-sale are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Fair value gains or losses of those securities are reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired except for the life insurance business, where such fair value gains or losses are reported as a separate component of the policyholders' fund. When these available-for-sale securities are sold or impaired, the accumulated fair value adjustments previously recognised in equity or policyholders' fund are included in the income statement and/or revenue accounts as net realised gains or losses.

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

Securities held-to-maturity are non-derivative securities with fixed or determinable payments and fixed maturities that the Company has the positive intention or the ability to hold to maturity.

Securities categorised as held-to-maturity are subsequently measured at amortised cost using the effective interest method.

The accounting policy on investments that was applied in the previous financial year is described in Note 2(z) to the financial statements.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(h) Fair value of financial instruments**

The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate securities are based on indicative fair market prices/index by reference to the quotations provided by banks and brokers.

The fair values of quoted securities are based on current market prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values.

The fair value of structured deposits is based on the prices quoted by the issuing financial institution.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit or placement and accrued interest or profit. The fair value of fixed interest or yield-bearing deposits is measured at the face value or market value, whichever is lower.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(i) Impairment of securities**

The Company assesses at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the security that can be reliably estimated.

##### **(i) Securities carried at amortised cost**

If there is objective evidence that an impairment loss on held-to-maturity securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement and/or revenue accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement and/or revenue accounts.

##### **(ii) Securities carried at cost**

If there is objective evidence that an impairment loss on securities carried at cost (e.g. equity instrument of which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(i) Impairment of securities (cont'd)**

##### **(iii) Securities carried at fair value**

In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity or policyholders' fund and recognised in the income statement and/or revenue accounts.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through the income statement and/or revenue accounts. Impairment losses previously recognised in the income statement and/or revenue accounts on equity instruments are not reversed through the income statement and/or revenue accounts.

#### **(j) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured where applicable, by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(j) Impairment of non-financial assets (cont'd)**

The impairment loss is charged to the income statement and/or revenue accounts immediately. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement and/or revenue accounts immediately.

#### **(k) General insurance underwriting results**

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, premium liabilities and claims incurred.

#### **Premium income**

Premium income is recognised in a financial year in respect of risks assumed during that particular year. Premiums from direct business are recognised during the financial year upon the issuance of insurance policies. Premiums in respect of risks incepted for which insurance policies have not been raised as of the balance sheet date are accrued at that date. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers. Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.



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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(k) General insurance underwriting results (cont'd)**

##### **Premium liabilities**

Premium liabilities refer to the higher of:

- (i) the aggregate of the unearned premium reserves (“UPR”); or
- (ii) the best estimate value of the insurer’s unexpired risk reserves (“URR”) at the valuation date and the provision of risk margin for adverse deviation (“PRAD”) calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer’s expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at the balance sheet date, the method that most accurately reflects the actual unearned premium is used, as follows:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- (iii) time apportionment method for non-annual policies (including long term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(k) General insurance underwriting results (cont'd)**

##### **Claims liabilities**

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the balance sheet date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the balance sheet date, based on an actuarial valuation with a PRAD at a 75% confidence level as required by BNM, based on actuarial valuation.

The accounting policy that was applied in the previous financial year is described in Note 2(z) to the financial statements.

The estimation of the claims liabilities involves projection of the Company's future claims experience based on past and current claims experience.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from the actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

These uncertainties arise from changes in underlying risks, changes in spread of risk, claims settlement as well as uncertainties in the projection model and underlying assumptions.

##### **Acquisition costs**

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(I) Life insurance underwriting results**

The surplus transferable from the life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders. In the event the actuarial valuation indicates that a transfer is required from the shareholders' fund, the transfer from the income statement to the life insurance fund is made in the financial year of the actuarial valuation.

#### **Premium income**

Premium income includes premium recognised in the life fund and the investment-linked fund.

Premium income of the life fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relates.

Premium income of the investment-linked fund includes net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

#### **Commission and agency expenses**

Commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the revenue account in the financial year in which they are incurred.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(I) Life insurance underwriting results (cont'd)**

##### **Provision for claims**

Claims and settlement costs that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

Recoveries on reinsurance claims are accounted for in the same financial year as the original claims are recognised.

Claims and provisions for claims arising on life insurance policies including settlement costs, less reinsurance recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

- (a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- (b) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

##### **Life insurance liabilities**

Prior to 1 January 1996, the Insurance Regulations, 1996 prescribed the minimum valuation basis which the Appointed Actuary must adhere to. This basis is commonly known as the Net Premium Valuation method. The Appointed Actuary may adopt a more stringent basis.

From 1 January 1996 onwards, BNM guideline GL 003-24 Risk-Based Capital ("RBC") Framework to Insurers supersedes the Insurance Regulations, 1996 minimum valuation basis. The new method is commonly known as the Gross Premium Valuation method. The Appointed Actuary has to set the Best Estimate ("BE") and the Provision for Adverse Deviation ("PRAD") for all assumptions.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(I) Life insurance underwriting results (cont'd)**

##### **Life insurance liabilities (cont'd)**

Under the Net Premium Valuation method, the liability was ascertained by deducting the present values of the net premiums from the present values of the sums assured and bonuses (if any), discounted at prescribed fixed interest rate. An allowance was made for preliminary expenses on regular premium Whole Life and Endowment Assurances.

Under the Gross Premium Valuation method, guaranteed benefit reserves were calculated as present values of sum assured, vested bonuses (if any), other guaranteed benefits, distribution expenses, management expenses less the present value of gross premiums, discounted at the appropriate rate discount. Total benefit reserves were calculated as present values of sum assured, vested bonuses plus best estimate of non-guaranteed future bonuses, other guaranteed benefits, distribution expenses, management expenses less the present value of gross premium, discounted at the appropriate rate discount.

The valuation of the non-unit liability was conducted for each investment-linked policy by cash flow projection. The liability in respect of the non-unit component of an investment-linked policy was valued by projecting future cash flows to ensure that all future outflows could be met without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy. The cash flow projection was conducted using a basis no more favourable than the RBC requirement. The risk-free discount rates were used for all cash flows to determine the liability of the non-unit liability of an investment-linked policy.

The net liabilities in unit fund were calculated as the total asset value of each unit investment fund.

The change in the valuation basis for insurance liabilities has resulted in prospective adjustments within the components of the life policyholders' fund as disclosed in Note 2(z) to the financial statements.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(m) Other revenue recognition**

Interest income including the amount of amortisation of premiums and accretion of discounts, is recognised on a time proportion basis that takes into account the constant yield of the assets.

Rental income is recognised on an accrual basis, except where default in payment of rent has already occurred and rent due remains outstanding for over six months in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on a receipt basis until all arrears have been paid.

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

#### **(n) Allowance for bad and doubtful debts**

Allowance is also made for any premiums including agent's balances or reinsurance balances which remain outstanding for more than six months from the date of inception of the risk, except for motor premiums for which allowance is made for amounts outstanding for more than 30 days. In addition, allowance is made for any reinsurance claims recoveries which remain outstanding for more than six months from the date of issuance of claims recovery debit notes. Known bad debts are written off in the financial period in which they are identified. Specific allowance is made for any debt considered to be doubtful of collection.

#### **(o) Taxation**

Taxation on the income statement and life fund revenue account comprises current and deferred tax. Current tax is the expected amount of tax payable in respect of the taxable income for the financial year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous financial years.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(o) Taxation (cont'd)**

Deferred taxation is provided in full using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### **(p) Foreign currencies**

##### **Functional and presentation currency**

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statement are presented in Ringgit Malaysia, which is the Company’s functional and presentation currency.

##### **Transaction and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement and/or revenue accounts.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(q) Dividends**

Dividends on ordinary shares are accounted for in the shareholders' equity as an appropriation of retained earnings in the period in which they are declared.

#### **(r) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances excluding fixed and call deposits.

#### **(s) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

#### **(t) Derivatives financial instruments**

Derivatives are initially recognised at fair value at inception and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.



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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(t) Derivatives financial instruments (cont'd)**

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. As the Company's derivative financial instruments do not qualify for hedge accounting, changes in the fair values of all such derivative instruments are recognised immediately in the income statement and/or revenue accounts. Gain or loss upon termination or maturity of the derivative contract is recognised immediately to the income statement and/or revenue accounts.

#### **(u) Assets held-for-sale and discontinued operations**

Non-current assets are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use.

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

#### **(v) Employee benefits**

##### **(i) Short term benefits**

Wages, salaries, bonuses and social security contributions and other non-monetary benefits are recognised as expenses in the financial year in which the associated services are rendered by employees of the Company.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(v) Employee benefits (cont'd)**

##### **(ii) Equity compensation benefits (cont'd)**

A trust has been set up for the executive share option scheme (“ESOS”) by the penultimate holding company, Hong Leong Financial Group (“HLFG”), for the Hong Leong Assurance Berhad ESOS, administered by an appointed trustee. The Company from time to time provided financial assistance to the trustee, upon such terms and conditions as HLFG and the trustee had agreed, for the purchase of such number of HLFG shares to satisfy the exercise of the share option by eligible executives of the Company for which BNM approval had been obtained. The financial assistance given to the trustee to purchase the HLFG shares for the purpose of the scheme was recorded as advances to trustee in the balance sheet.

#### **(w) Loans**

Loans include policy loans and premium loans extended by the Company to its policyholders which are secured on the cash surrender value of the insurance policies. Loans are stated at cost less any allowance for doubtful debts.

#### **(x) Provisions**

Provisions are recognised when the Company has a present legal constructive obligation as a result of past events. When it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

#### **(y) Contingent liabilities and contingent assets**

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(y) Contingent liabilities and contingent assets (cont'd)**

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

#### **(z) Changes in accounting policies**

Pursuant to the implementation of the RBC Framework, the Company changed its accounting policies in relation to the valuation of investments and the valuation basis of insurance liabilities. These changes in the accounting policies, as described in the summary of accounting policies, have been recognised as adjustments to the opening balances as at 1 July 2009, as disclosed in Note 2(a) to the financial statements.

#### **(i) Investments**

In previous financial years, investments in Malaysian Government Securities, Government Investment Issues, Treasury Bills and other unquoted approved debt securities as specified by BNM were stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on constant yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts were recognised in the income statement and/or revenue accounts.

Quoted investments were stated at the lower of cost and market value, determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment was not regarded as temporary, specific allowance was made against the value of that investment. Market value was determined by reference to the stock exchange closing price at the balance sheet date.

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **(z) Changes in accounting policies**

##### **(i) Investments (cont'd)**

Unquoted investments were shown at cost and an allowance for diminution in value was made where, in the opinion of the directors, there was a decline other than temporary in the value of such investment. Where there was a decline other than temporary in the value of an investment, such a decline was recognised as an expense in the financial year in which the decline was identified.

The RBC Framework requires insurers to classify and value the investment securities into three categories: securities held-for-trading, securities available-for-sale or securities held-to-maturity. The Company has classified its securities portfolio as described in Note 2(g) to the financial statements.

##### **(ii) Insurance liabilities**

###### **(a) General insurance business**

###### **Claims liabilities**

The RBC Framework introduced new features in the estimation of general insurance claims liabilities such as allowing discounting and diversification as well as requiring the actuary to take into account, inflation. In addition, prior to 1 January 2009, claims handling costs were not included in the computation of the outstanding claims provision.

###### **(b) Life insurance business**

###### **Life policyholders' fund**

Prior to 1 January 2009, life insurance liabilities were assessed using prescribed fixed interest rate for discounting purposes, future benefits and future income were assessed without considering the relevant expenses, and fixed mortality assumptions.

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**NOTES TO THE FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(z) Changes in accounting policies (cont'd)**

**(ii) Insurance liabilities (cont'd)**

**(b) Life insurance business (cont'd)**

The RBC Framework had introduced a new measurement basis for Life insurance liabilities, requiring insurers to assess insurance liabilities based on current assumptions, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. This includes the consideration of all cash flows, including estimates of future expenses as explained in Note 2(l).

The effects of the changes arising from the implementation of the RBC Framework to the opening balances of the Company as at 1 July 2009 are as follows:

	<b>As previously stated  RM'000</b>	<b>Effects of change in accounting policies  RM'000</b>	<b>As restated  RM'000</b>
<b>(i) General and Shareholders' fund</b>			
Investments	564,094	(564,094)	-
Securities available-for-sale	-	346,322	346,322
Fixed deposits	-	219,119	219,119
Deferred tax assets	1,301	2,272	3,573
Derivative financial liabilities	-	(79)	(79)
Claims liabilities	(161,661)	(9,443)	(171,104)
Premium liabilities	(84,837)	(1,456)	(86,293)
Retained earnings	(284,974)	4,828	(280,146)
Available-for-sale reserve	-	2,531	2,531

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**NOTES TO THE FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(z) Changes in accounting policies (cont'd)**

	<b>As previously stated</b>	<b>Effects of change in accounting policies</b>	<b>As restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>(ii) Life Fund</b>			
Investments	3,701,198	(3,701,198)	-
Securities available-for-sale	-	2,796,889	2,796,889
Securities held-to-maturity	-	211,752	211,752
Fixed deposits	-	705,977	705,977
Derivative financial assets	-	42	42
Derivative financial liabilities	-	(402)	(402)
Deferred tax liabilities	(200)	(1,074)	(1,274)
Life policyholders' fund	(4,137,452)	(11,986)	(4,149,438)
- Actuarial liabilities	(3,533,292)	183,866	(3,349,426)
- Unallocated surplus	(604,159)	(226,034)	(830,193)
- Available-for-sale reserve	-	30,182	30,182

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NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

(a) General business and Shareholders' fund

	Freehold Land RM'000	Buildings Freehold RM'000	Leasehold RM'000	Office renovation, equipment & furniture RM'000	Motor vehicles RM'000	Total RM'000
<b>Net book value</b>						
At 1 July 2009	2,896	948	4,721	5,482	572	14,619
Additions	-	-	-	4,668	-	4,668
Depreciation charge	-	(39)	(118)	(2,415)	(187)	(2,759)
Disposals/write off at net book value	-	-	-	(972)	(178)	(1,150)
Transfer to non-current assets held-for-sale (Note 13)	(2,533)	(778)	(2,441)	(6,762)	(206)	(12,720)
At 30 June 2010	<u>363</u>	<u>131</u>	<u>2,162</u>	<u>1</u>	<u>1</u>	<u>2,658</u>
<b>At 30 June 2010</b>						
Cost	363	181	2,571	39	143	3,297
Accumulated depreciation	-	(50)	(409)	(38)	(142)	(639)
Net book value	<u>363</u>	<u>131</u>	<u>2,162</u>	<u>1</u>	<u>1</u>	<u>2,658</u>

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HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) General business and Shareholders' fund (cont'd)

	Freehold Land RM'000	Buildings Freehold RM'000	Leasehold RM'000	Office renovation, equipment & furniture RM'000	Motor vehicles RM'000	Total RM'000
<b>At 30 June 2009</b>						
Cost	2,896	1,448	5,914	30,399	1,366	42,023
Accumulated depreciation	-	(500)	(1,193)	(24,917)	(794)	(27,404)
Net book value	<u>2,896</u>	<u>948</u>	<u>4,721</u>	<u>5,482</u>	<u>572</u>	<u>14,619</u>
Depreciation charge for the financial year ended 30 June 2009	<u>-</u>	<u>39</u>	<u>118</u>	<u>2,223</u>	<u>230</u>	<u>2,610</u>



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NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(b) Life fund

	Leasehold Buildings RM'000	Office Renovation, Equipment & Furniture RM'000	Motor Vehicles RM'000	Capital Work-in Progress RM'000	Total RM'000
<b>Net book value</b>					
At 1 July 2009	75,692	5,763	477	1,475	83,407
Additions	-	4,710	141	-	4,851
Depreciation charge	(1,532)	(2,517)	(178)	-	(4,227)
Disposals/write off at net book value	-	(492)	(143)	-	(635)
Reclassification at net book value	-	-	-	(858)	(858)
At 30 June 2010	<u>74,160</u>	<u>7,464</u>	<u>297</u>	<u>617</u>	<u>82,538</u>
<b>At 30 June 2010</b>					
Cost	76,603	29,604	612	617	107,436
Accumulated depreciation	(2,443)	(22,140)	(315)	-	(24,898)
Net book value	<u>74,160</u>	<u>7,464</u>	<u>297</u>	<u>617</u>	<u>82,538</u>

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NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(b) Life fund (cont'd)

	Leasehold Buildings RM'000	Office Renovation, Equipment & Furniture RM'000	Motor Vehicles RM'000	Capital Work-in Progress RM'000	Total RM'000
<b>At 30 June 2009</b>					
Cost	76,603	30,651	872	1,475	109,601
Accumulated depreciation	(911)	(24,888)	(395)	-	(26,194)
Net book value	<u>75,692</u>	<u>5,763</u>	<u>477</u>	<u>1,475</u>	<u>83,407</u>
Depreciation charge for the financial year ended 30 June 2009	<u>649</u>	<u>2,449</u>	<u>175</u>	<u>-</u>	<u>3,273</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

Included in property, plant and equipment of the General and Life funds are fully depreciated assets which are still in use as follows:-

	<b>General business and Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010 RM'000</b>	<b>2009 RM'000</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>Cost</b>				
Office renovation, equipment and furniture	34	12,936	12,633	10,379
Motor vehicles	143	341	103	72
	<u>177</u>	<u>13,277</u>	<u>12,736</u>	<u>10,451</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**4. PREPAID LEASE PAYMENTS**

	<b>General business and Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Net book value</b>				
At beginning of financial year	1,362	1,378	1,427	1,453
Amortisation charge	(16)	(16)	(26)	(26)
Transfer to non-current assets held-for-sale (Note 13)	(757)	-	-	-
At end of financial year	<u>589</u>	<u>1,362</u>	<u>1,401</u>	<u>1,427</u>
Cost	643	1,537	1,785	1,785
Accumulated amortisation	(54)	(175)	(384)	(358)
Net book value	<u>589</u>	<u>1,362</u>	<u>1,401</u>	<u>1,427</u>
<b>Analysed by:</b>				
Unexpired lease period more than 50 years	589	1,362	446	452
Unexpired lease period less than 50 years	-	-	955	975

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**NOTES TO THE FINANCIAL STATEMENTS**

**5. INTANGIBLE ASSETS**

	<b>General business and Shareholders'</b>	
	<b>fund Computer software RM'000</b>	<b>Life fund Computer software RM'000</b>
<b>Net book value</b>		
At 1 July 2009	4,195	5,505
Additions	68	64
Reclassification of assets	-	858
Amortisation charge	(2,702)	(3,910)
Transfer to non-current assets held-for-sale (Note 13)	(1,560)	-
At 30 June 2010	<u>1</u>	<u>2,517</u>
<b>Net book value</b>		
At 1 July 2008	8,345	9,847
Additions	171	199
Amortisation charge	(4,321)	(4,541)
At 30 June 2009	<u>4,195</u>	<u>5,505</u>
<b>At 30 June 2010</b>		
Cost	34	34,539
Accumulated amortisation	(33)	(32,022)
Net book value	<u>1</u>	<u>2,517</u>
<b>At 30 June 2009</b>		
Cost	33,703	32,336
Accumulated amortisation	(29,508)	(26,831)
Net book value	<u>4,195</u>	<u>5,505</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**6. SUBSIDIARY COMPANIES**

**General business**

	2010		2009	
	Carrying amount	Net tangible assets	Carrying amount	Net tangible assets
	RM'000	RM'000	RM'000	RM'000
Unquoted shares at cost	-	-	75,032	75,192

The subsidiary companies are:-

<u>Name</u>	<u>Place of Incorporation</u>	<u>Equity Holding</u>		<u>Principal Activity</u>
		2010	2009	
		%	%	
Allstate Health Benefits Sdn Bhd <sup>1/</sup> and its subsidiary	Malaysia	-	100	Investment holding
*Hong Leong Insurance (Asia) Limited <sup>2/</sup>	Hong Kong	-	100	General insurance business

\* Audited by other audit firm.

<sup>1/</sup> Refer to Note 37(c) of the financial statements. The effect of this voluntary liquidation exercise, is a loss of approximately RM2.4 million as disclosed in Note 26 to the financial statements.

<sup>2/</sup> Refer to Note 37(a) of the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

**7. INVESTMENT PROPERTIES**

	<b>Life Fund</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Net book value</b>		
At beginning of financial year	221,600	211,600
Fair value gain	10,080	10,000
At end of financial year	<u>231,680</u>	<u>221,600</u>
The analysis of investment properties is as follows:-		
Freehold land and building	230,000	220,000
Leasehold land and building	1,680	1,600
	<u>231,680</u>	<u>221,600</u>

The fair value of the properties was estimated at RM231,680,000 (2009: RM221,600,000) based on open market valuation by an independent professional valuer, Messr Rahim & Co International Property Consultants.

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**NOTES TO THE FINANCIAL STATEMENTS**

**8. INVESTMENTS**

**(a) General business and Shareholders' fund**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>
<b>Malaysian Government Securities</b>				
At cost	-		38,330	
Amortisation of premium-net	-		(166)	
	<u>-</u>		<u>38,164</u>	
<b>Other government guaranteed low risk assets</b>				
At cost	-		24,615	
Accretion of discount-net	-		349	
	<u>-</u>		<u>24,964</u>	
<b>Quoted in Malaysia:</b>				
Shares, warrants and loan stocks				
At cost	-		62,182	
Allowance for diminution in value	-		(4,193)	
	<u>-</u>		<u>57,989</u>	57,989
Unit trusts				
At cost	-		4,019	
Allowance for diminution in value	-		(529)	
	<u>-</u>		<u>3,490</u>	3,490
<b>Total quoted investments</b>	<u>-</u>	<u>-</u>	<u>61,479</u>	<u>61,479</u>



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**NOTES TO THE FINANCIAL STATEMENTS**

**8. INVESTMENTS (CONT'D)**

**(a) General business and Shareholders' fund (cont'd)**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>
<b>Unquoted in Malaysia:</b>				
Shares, warrants and loan stocks	-		10,245	
Corporate debentures and bonds				
At cost:				
- In Malaysia	-		190,781	
- Outside Malaysia	-		7,055	
Accretion of discount-net	-		1,281	
	-		199,117	
Unit trusts				
At cost:				
- In Malaysia	-		11,006	
	-		11,006	
<b>Total unquoted investments</b>	-		220,368	
<b>Total investments</b>	-		344,975	
<b>Investments maturing after 12 months</b>	-		284,566	

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**NOTES TO THE FINANCIAL STATEMENTS**

**8. INVESTMENTS (CONT'D)**

**(b) Life fund**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>
<b>Malaysian Government Securities</b>				
At cost	-		337,068	
Accretion of discount-net	-		663	
	<u>-</u>		<u>337,731</u>	
<b>Other government guaranteed low risk assets</b>				
At cost	-		127,019	
Accretion of discount-net	-		4,331	
	<u>-</u>		<u>131,350</u>	
<b>Quoted in Malaysia:</b>				
Shares, warrants and loan stocks				
At cost:				
- In Malaysia			336,268	
- Outside Malaysia			1,146	
Unrealised foreign exchange gain	-		20	
Allowance for diminution in value	-		(42,098)	
	<u>-</u>		<u>295,336</u>	295,336
<b>Unit trusts</b>				
At cost:				
- In Malaysia	-		64,918	
Allowance for diminution in value	-		(4,128)	
	<u>-</u>		<u>60,790</u>	60,802
<b>Total quoted investments</b>	<u>-</u>	<u>-</u>	<u>356,126</u>	<u>356,138</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**8. INVESTMENTS (CONT'D)**

**(b) Life fund (cont'd)**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>	<b>Carrying value RM'000</b>	<b>Market value RM'000</b>
<b>Unquoted:</b>				
Shares, warrants and loan Stocks				
At cost:				
- In Malaysia	-		2,147	
	<hr/>		<hr/>	
Corporate debentures and bonds				
At cost:				
- In Malaysia	-		1,825,983	
- Outside Malaysia	-		148,108	
Unrealised foreign exchange gain	-		531	
Accretion of discount-net	-		32,977	
	<hr/>		<hr/>	
	-		2,007,599	
	<hr/>		<hr/>	
Structured investments				
At cost:	-		168,475	
Unrealised foreign exchange loss	-		(8,512)	
Accretion of discount-net	-		305	
	<hr/>		<hr/>	
	-		160,268	
	<hr/>		<hr/>	
<b>Total unquoted investments</b>	-		2,170,014	
	<hr/>		<hr/>	
<b>Total investments</b>	-		2,995,221	
	<hr/>		<hr/>	
<b>Investments maturing after 12 months</b>	-		2,688,044	
	<hr/>		<hr/>	

Pursuant to the implementation of the Risk-Based Capital Framework, the investments of the Company in the General and Shareholders' funds and the Life fund have been reclassified in accordance with the accounting policies as described in Note 2(g) to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

**9. SECURITIES**

**(a) General business and Shareholders' fund**

The securities held under the General and Shareholders' fund are summarised as follows:

	<b>2010</b>
	<b>RM'000</b>
Available-for-sale	73,977

The assets included in the above categories are detailed in the table below:

**At fair value:**

**Securities available-for-sale:**

Quoted:

Equity securities in corporations	38,527
Unit trusts	3,221
	<u>41,748</u>

Unquoted:

Corporate debt securities	21,221
Unit trusts	11,008
	<u>32,229</u>

Total securities available-for-sale	<u><u>73,977</u></u>
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The maturity structure of corporate debt securities above is as follows:

Maturing after 12 months	<u><u>21,221</u></u>
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**NOTES TO THE FINANCIAL STATEMENTS**

**9. SECURITIES (CONT'D)**

**(b) Life fund**

The securities held under the Life fund are summarised as follows:

	<b>2010</b>
	<b>RM'000</b>
Available-for-sale	3,369,126
Held-to-maturity	215,862
	<u>3,584,988</u>

The assets included in the above categories are detailed in the table below:

**At fair value:**

**Securities available-for-sale:**

Malaysian Government Securities and other government guaranteed low risk assets	<u>583,510</u>
Quoted:	
Equity securities in corporations	419,665
Unit trusts	72,691
	<u>492,356</u>
Unquoted:	
Corporate debt securities	2,114,314
Equity securities in corporations	2,147
Structured investments	176,799
	<u>2,293,260</u>
Total securities available-for-sale	<u><u>3,369,126</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**9. SECURITIES (CONT'D)**

<b>(b) Life fund (Cont'd)</b>	<b>2010</b>
<b>At amortised cost:</b>	<b>RM'000</b>
<b>Securities held-to-maturity:</b>	
Unquoted:	
Corporate debt securities	215,862
	<hr/>
Total securities held-to-maturity	215,862
	<hr/> <hr/>

The maturity structure of Malaysian Government Securities, other government guaranteed low risk assets and corporate debt securities above is as follows:

Maturing within 12 months	130,872
Maturing after 12 months	2,782,814
	<hr/>
	2,913,686
	<hr/> <hr/>

No comparative figures have been presented for 30 June 2009 based on the new classification of securities resulting from the implementation of the Risk-Based Capital Framework by virtue of the prospective application allowed under the transitional provision of the framework.

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**NOTES TO THE FINANCIAL STATEMENTS**

**10 . FIXED AND CALL DEPOSIT**

**(a) General business and Shareholders' fund**

	<b>2010</b>	<b>2009</b>
	<b>Carrying</b>	<b>Carrying</b>
	<b>value</b>	<b>value</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Fixed and call deposits with:</b>		
Licensed banks in Malaysia	228,331	219,118
Unrealised foreign exchange gain	-	1
	<u>228,331</u>	<u>219,119</u>

**(b) Life fund**

<b>Fixed and call deposits with:</b>		
Licensed banks		
- In Malaysia	862,223	662,084
- Outside Malaysia	12,815	18,198
Unrealised foreign exchange gain/(loss)	118	(64)
Licensed finance companies	-	25,759
	<u>875,156</u>	<u>705,977</u>

**11 . LOANS**

	<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Policy loans	25,954	24,633
Premium loans	629,292	595,648
	<u>655,246</u>	<u>620,281</u>
Receivable after 12 months	<u>655,246</u>	<u>620,281</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**12 . DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Life fund</b>		
Derivative assets:		
- Forward foreign contracts - fair value hedge	896	-
	<u>896</u>	<u>-</u>
Derivative liabilities:		
- Interest swap - fair value hedge	4,968	-
- Forward foreign contracts - fair value hedge	144	-
	<u>5,112</u>	<u>-</u>

(a) Forward foreign exchange contracts

The notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2010 was RM180.9 million. As the Company does not apply hedge accounting, the full fair value gain or loss was recognised in the revenue account during the financial year.

(b) Interest rate swap

The interest rate swap transaction with a notional amount of RM46,000,000 was entered into by the Company with a licensed bank. During the financial year, the interest rate on the callable option ranged from 2.14% to 2.76% per annum. As the Company does not apply hedge accounting, the fair value loss on the interest rate swap was recognised in the revenue account during the financial year.



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**NOTES TO THE FINANCIAL STATEMENTS**

**13. NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE**

**(a) Continuing operations**

	<b>General business and Shareholders' fund</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Net book value</b>		
At end of financial year	<u>60</u>	<u>60</u>

Assets held-for-sale relate to an apartment for which Board approval was made and is now actively marketed for sale through real estate agents.

**(b) Discontinued operations**

The non-current assets and the associated liabilities held-for-sale are in respect of the proposed disposal of the General Insurance Business to MSIG following the signing of a Business Transitional Agreement ("BTA") between the Company on 18 June 2010. The disposal is expected to be completed by 30 September 2010.

Accordingly, the related assets and liabilities of the General Insurance Business identified for disposal have been classified under assets and liabilities held-for-sale.

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**NOTES TO THE FINANCIAL STATEMENTS**

**13. NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)**

**(b) Discontinued operations (cont'd)**

The components of assets and liabilities held-for-sale and the related net cash flows attributable to the discontinued operations are as follows:

**(i) Non-current assets classified as held-for-sale comprise of:**

	<b>2010</b>
	<b>RM'000</b>
Property, plant and equipment (Note 3)	12,720
Prepaid lease payments (Note 4)	757
Intangible assets (Note 5)	1,560
Securities available-for-sale	108,136
Fixed and call deposits	158,504
Receivables (Note 15(b))	44,793
Cash and bank balances	20,065
Total	<u>346,535</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**13 . NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)**

**(b) Discontinued operations (cont'd)**

The securities held under non-current assets held-for-sale are summarised as follows:

<b>At fair value:</b>	<b>2010</b>
<b>Securities available-for-sale:</b>	<b>RM'000</b>
Malaysian Government Securities and other government guaranteed low risk assets	15,258
	<hr/>
Quoted:	
Equity securities of corporation	31,796
Unit trusts	1,348
	<hr/>
	33,144
	<hr/>
Unquoted:	
Corporate debt securities	59,489
Equity securities of corporation	245
	<hr/>
	59,734
	<hr/>
Total securities available-for-sale	<u>108,136</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**13. NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)**

**(b) Discontinued operations (cont'd)**

**(i) Non-current assets classified as held-for-sale comprise of: (cont'd)**

The maturity structure of Malaysian Government Securities, other government guaranteed low risk assets and corporate debt securities above is

	<b>2010</b>
	<b>RM'000</b>
Maturing within 12 months	15,141
Maturing after 12 months	59,606
	<u>74,747</u>

**(ii) Liabilities directly associated with non-current assets held-for-sale comprise of:**

Claims liabilities (Note 16(a))	187,020
Payables (Note 17(b))	43,953
Premium liabilities (Note 18)	89,129
Total	<u>320,102</u>

**(iii) Net cash flows attributable to the discontinued operations comprise of:**

Net inflow from operating activities	1,241
Net outflow from investing activities	(3,331)
Total net cash outflows	<u>(2,090)</u>

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**NOTES TO THE FINANCIAL STATEMENTS****14 . DEFERRED TAX ASSETS/(LIABILITIES)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when these deferred taxes relate to the same tax authority.

	<b>General business and Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010 RM'000</b>	<b>2009 RM'000</b>	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>Deferred tax assets</b>				
At 1 July	-	(1,345)	-	-
Credited to income statement (Note 27)	-	2,646	-	-
At 30 June	<u>-</u>	<u>1,301</u>	<u>-</u>	<u>-</u>
<b>Deferred tax liabilities</b>				
At 1 July				
- As previously stated	1,301	-	(200)	206
- Change in accounting policies (Note 2(z))	2,272	-	(1,074)	-
At 1 July (restated)	<u>3,573</u>	<u>-</u>	<u>(1,274)</u>	<u>206</u>
Credited/(charged) to income statement (Note 27)	(1,516)	-	(308)	(406)
Deferred tax on fair value movement of available-for-sale reserves	(2,221)	-	(13,305)	-
At 30 June	<u>(164)</u>	<u>-</u>	<u>(14,887)</u>	<u>(200)</u>

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**NOTES TO THE FINANCIAL STATEMENTS****14 . DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D)**

The Company recognised deferred tax assets/(liabilities) arising from the following temporary differences:-

	<b>General business and Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Subject to income tax:				
<b>Deferred tax assets</b>				
<b>(before offsetting)</b>				
Staff retirement benefits and allowance for doubtful debts	2,080	1,591	-	-
Premium liabilities	161	139	-	-
Investments	-	1,139	-	2,578
Others	-	3	-	-
	<u>2,241</u>	<u>2,872</u>	<u>-</u>	<u>2,578</u>
Offsetting	(2,241)	(1,571)	-	(2,578)
	<u>-</u>	<u>1,301</u>	<u>-</u>	<u>-</u>
<b>Deferred tax assets</b>				
<b>(after offsetting)</b>				
	<u>-</u>	<u>1,301</u>	<u>-</u>	<u>-</u>
Subject to income tax:				
<b>Deferred tax liabilities</b>				
<b>(before offsetting)</b>				
Property, plant and equipment	(822)	(1,571)	-	-
Securities held-to-maturity	-	-	(1,851)	-
Securities available-for-sale				
- charged to income statement	(173)	-	(116)	-
- charged to equity	(1,377)	-	(10,680)	-
Securities held-for-trading			1,314	
Investment properties	-	-	(3,585)	(2,778)
Others	(33)	-	31	-
	<u>(2,405)</u>	<u>(1,571)</u>	<u>(14,887)</u>	<u>(2,778)</u>
Offsetting	2,241	1,571	-	2,578
	<u>(164)</u>	<u>-</u>	<u>(14,887)</u>	<u>(200)</u>

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**NOTES TO THE FINANCIAL STATEMENTS****15 . RECEIVABLES****(a) Continuing operations**

	<b>Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Trade receivables</b>				
Due premiums including agents, brokers and co-insurers balances	-	-	33,387	29,166
	<u>-</u>	<u>-</u>	<u>33,387</u>	<u>29,166</u>
Allowance for doubtful debts	-	-	(492)	(511)
	<u>-</u>	<u>-</u>	<u>32,895</u>	<u>28,655</u>
<b>Other receivables</b>				
Other receivables, deposits and prepayments	1,294	687	45,083	40,201
Advance to trustee	12,155	12,155	-	-
Amount due from life fund	175,008	57,103	-	-
	<u>188,457</u>	<u>69,945</u>	<u>45,083</u>	<u>40,201</u>
Total receivables	<u>188,457</u>	<u>69,945</u>	<u>77,978</u>	<u>68,856</u>

Advance to trustee refers to the ESOS scheme by HLFGB as described in Note 2(v)(ii) to the financial statements. On 8 June 2010, HLA granted 700,000 options over ordinary shares of Hong Leong Financial Group Berhad ("Options") to its eligible executives. Vesting of the Options will be done in three (3) stages as follows :

- (a) 30% will be vested on 8 June 2012;
- (b) 35% will be vested on 8 June 2013;
- (c) 35% will be vested on 8 June 2014.

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**NOTES TO THE FINANCIAL STATEMENTS**

**15 . RECEIVABLES (CONT'D)**

**(b) Discontinued operations**

	<b>General business</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Trade receivables</b>		
Due premiums including agents, brokers and co-insurers balances	26,799	29,078
Due from reinsurers and cedants	11,572	17,528
	<hr/>	<hr/>
	38,371	46,606
Allowance for doubtful debts	(7,060)	(5,362)
	<hr/>	<hr/>
	31,311	41,244
	<hr/>	<hr/>
<b>Other receivables</b>		
Other receivables, deposits and prepayments	13,482	11,278
Amount due from life fund	-	577
	<hr/>	<hr/>
	13,482	11,855
	<hr/>	<hr/>
Total receivables	<u>44,793</u>	<u>53,099</u>



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**NOTES TO THE FINANCIAL STATEMENTS**

**16 . CLAIMS LIABILITIES/PROVISION FOR OUTSTANDING CLAIMS**

**(a) Discontinued operations**

	<b>General business</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Claims liabilities	381,526	343,961
Less: Recoverable from reinsurers	(194,506)	(182,300)
Net claims liabilities	<u>187,020</u>	<u>161,661</u>

**(b) Continuing operations**

	<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Provision for outstanding claims	59,066	48,077
Less: Recoverable from reinsurers	(12,449)	(12,214)
Net outstanding claims	<u>46,617</u>	<u>35,863</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**17 . PAYABLES**

**(a) Continuing operations**

	<b>Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Trade payables</b>				
Amount due to reinsurers and cedants	-	-	19,107	13,245
Amount due to agents and insureds	-	-	15,274	11,754
Amount due to policyholders	-	-	490,422	388,065
	<u>-</u>	<u>-</u>	<u>524,803</u>	<u>413,064</u>
<b>Other payables</b>				
Other payables and accrued liabilities	398	10,415	78,166	58,017
Total payables	<u>398</u>	<u>10,415</u>	<u>602,969</u>	<u>471,081</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**17 . PAYABLES (CONT'D)**

**(b) Discontinued operations**

	<b>General business</b>	
	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Trade payables</b>		
Amount due to reinsurers and cedants	19,101	25,120
Amount due to agents, brokers, co-insurers and insureds	9,020	8,833
Deposit withheld from reinsurers	939	934
	<u>29,060</u>	<u>34,887</u>
<b>Other payables</b>		
Other payables and accrued liabilities	14,893	13,875
Total payables	<u>43,953</u>	<u>48,762</u>

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**NOTES TO THE FINANCIAL STATEMENTS****18 . PREMIUM LIABILITIES****Discontinued operations**

	<b>Fire RM'000</b>	<b>Motor RM'000</b>	<b>Marine Aviation &amp; Transit RM'000</b>	<b>Misc. RM'000</b>	<b>Total RM'000</b>
<b>2010</b>					
At 1 July 2009					
- As previously stated	28,302	18,367	4,800	33,368	84,837
- Change of accounting policies (Note 2(z))	(10,359)	5,714	(773)	6,874	1,456
	<u>17,943</u>	<u>24,081</u>	<u>4,027</u>	<u>40,242</u>	<u>86,293</u>
(Decrease)/increase during the financial year	(1,357)	6,990	23	(2,820)	2,836
At 30 June 2010	<u><u>16,586</u></u>	<u><u>31,071</u></u>	<u><u>4,050</u></u>	<u><u>37,422</u></u>	<u><u>89,129</u></u>
<b>2009</b>					
At 1 July 2008	37,047	29,635	9,118	47,763	123,563
Decrease during the financial year	(8,745)	(11,268)	(4,318)	(14,395)	(38,726)
At 30 June 2009	<u><u>28,302</u></u>	<u><u>18,367</u></u>	<u><u>4,800</u></u>	<u><u>33,368</u></u>	<u><u>84,837</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**19 . LIFE POLICYHOLDERS' FUND**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Life policyholders' fund at end of financial year</b>		
Actuarial liabilities	3,743,212	3,533,292
Unallocated surplus	802,897	604,160
Available-for-sale reserves	122,826	-
	<u>4,668,935</u>	<u>4,137,452</u>

(a) Based on the actuarial valuation of the life policyholders' fund made up to 30 June 2010, the Appointed Actuary was satisfied that the assets available in the life fund are sufficient to meet its long term liabilities to policyholders.

(b) Results of the actuarial valuation of life policyholders' fund as at 30 June 2010 are as follows:-

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Actuarial liabilities</b>		
At 1 July		
- As previously stated	3,533,292	3,193,469
- Change in accounting policy (Note 2(z))	(183,866)	-
At 1 July (restated)	<u>3,349,426</u>	<u>3,193,469</u>
<b>Add:</b>		
Increase in policy reserves	224,184	180,110
Bonus allocated to participating policyholders		
- From normal surplus	169,602	159,713
At 30 June	<u>3,743,212</u>	<u>3,533,292</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**19 . LIFE POLICYHOLDERS' FUND**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Unallocated surplus</b>		
At 1 July		
- As previously stated	604,160	609,320
- Change in accounting policy (Note 2(z))	226,034	-
	<hr/>	<hr/>
At 1 July (restated)	830,194	609,320
<b>Add:</b>		
Surplus arising during the financial year	317,305	211,553
<b>Less:</b>		
Bonus allocated to policyholders		
- From normal surplus	(169,602)	(159,713)
Transfer to Income Statement	(175,000)	(57,000)
	<hr/>	<hr/>
At 30 June	<u>802,897</u>	<u>604,160</u>
<b>Available-for-sale reserves</b>		
At 1 July		
- As previously stated	-	-
- Change in accounting policy (Note 2(z))	(30,182)	-
	<hr/>	<hr/>
At 1 July (restated)	(30,182)	-
<b>Add:</b>		
Movements in fair value of AFS assets, net of deferred tax	153,008	-
	<hr/>	<hr/>
At 30 June	<u>122,826</u>	<u>-</u>

The available-for-sale reserves represent the fair value gain from available-for-sale securities of the Life Fund.

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**NOTES TO THE FINANCIAL STATEMENTS**

**20 . SHARE CAPITAL**

	<b>2010</b>		<b>2009</b>	
	<b>No of shares '000</b>	<b>RM'000</b>	<b>No of shares '000</b>	<b>RM'000</b>
<b>Ordinary shares of RM1.00 each</b>				
<b>Authorised:</b>				
At beginning of financial year/				
At end of financial year	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
<b>Issued and fully paid up:</b>				
At beginning of financial year/				
At end of financial year	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

**21 . RESERVES**

	<b>2010 RM'000</b>	<b>2009 RM'000</b>
<b>Distributable:</b>		
Retained earnings	296,958	284,974
<b>Non-distributable:</b>		
Available-for-sale reserve	<u>4,131</u>	<u>-</u>
	<u>301,089</u>	<u>284,974</u>

The available-for-sale reserve represents the fair value gains or losses from available-for-sale securities of the General and Shareholders' funds. Retained earnings represent the amount available for dividend distribution to the equity shareholders of the Company.

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## NOTES TO THE FINANCIAL STATEMENTS

### 21 . RESERVES (CONT'D)

Under the single tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of the shareholders. Companies with Section 108 credits as at 31 December 2007 may continue to pay franked dividends until the Section 108 credits are exhausted or on 31 December 2013, whichever is earlier, unless they opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act, 2007.

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act, 1999 to frank all of its retained earnings at 30 June 2010, if paid out as dividends.

### 22 . OPERATING REVENUE

	<b>Continuing operations</b>			<b>Dis-</b>
	<b>Shareholders'</b>	<b>Life</b>	<b>Total</b>	<b>continued</b>
	<b>fund</b>	<b>fund</b>	<b>RM'000</b>	<b>General</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>business</b>
				<b>RM'000</b>
<b>2010</b>				
Gross premium	-	1,071,373	1,071,373	324,491
Investment income (Note 25)	5,254	253,703	258,957	16,452
	<u>5,254</u>	<u>1,325,076</u>	<u>1,330,330</u>	<u>340,943</u>
<b>2009</b>				
Gross premium	-	921,704	921,704	304,726
Investment income (Note 25)	17,907	237,313	255,220	17,757
	<u>17,907</u>	<u>1,159,017</u>	<u>1,176,924</u>	<u>322,483</u>



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**NOTES TO THE FINANCIAL STATEMENTS****23 . NET CLAIMS INCURRED****Discontinued operations:**

	<b>Fire</b>	<b>Motor</b>	<b>Marine Aviation &amp; Transit</b>	<b>Misc.</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2010</b>					
Gross claims paid less salvage	61,980	38,634	14,459	72,162	187,235
Reinsurances recoveries	(37,350)	(2,591)	(6,666)	(21,678)	(68,285)
	<u>24,630</u>	<u>36,043</u>	<u>7,793</u>	<u>50,484</u>	<u>118,950</u>
Net claims paid					
Net outstanding claims:					
At end of financial year	28,686	60,980	19,775	77,579	187,020
At beginning of financial year					
- as previously stated	(28,129)	(52,683)	(16,641)	(64,208)	(161,661)
- change in accounting policy (Note 2(z))	(2,776)	(4,064)	1,163	(3,766)	(9,443)
	<u>22,411</u>	<u>40,276</u>	<u>12,090</u>	<u>60,089</u>	<u>134,866</u>
Net claims incurred					
<b>2009</b>					
Gross claims paid less salvage	52,182	44,279	17,662	87,977	202,100
Reinsurances recoveries	(30,247)	(2,709)	(6,086)	(23,879)	(62,921)
	<u>21,935</u>	<u>41,570</u>	<u>11,576</u>	<u>64,098</u>	<u>139,179</u>
Net claims paid					
Net outstanding claims:					
At end of financial year	28,129	52,683	16,641	64,208	161,661
At beginning of financial year	(29,044)	(43,291)	(15,961)	(68,631)	(156,927)
	<u>21,020</u>	<u>50,962</u>	<u>12,256</u>	<u>59,675</u>	<u>143,913</u>
Net claims incurred					

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**NOTES TO THE FINANCIAL STATEMENTS****24 . MANAGEMENT EXPENSES**

	<b>Continuing operations</b>				<b>Discontinued operations</b>	
	<b>Shareholders' fund</b>		<b>Life fund</b>		<b>General business</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Foreign exchange loss	-	-	4	5	(87)	42
Staff salaries, bonuses and allowance	40	29	24,762	21,966	19,970	21,944
Directors' remuneration						
- Fee	-	-	203	182	202	183
- Other emoluments	-	-	789	1,017	789	1,017
Auditors' remuneration	-	-	221	102	139	177
Rental of offices	3	3	2,812	4,387	3,319	3,419
Depreciation of property, plant and equipment	45	68	4,227	3,273	2,714	2,542
Amortisation of prepaid lease payments	6	6	26	26	10	10
Amortisation of intangible assets	4	5	3,910	4,541	2,698	4,316
IGSF levy	-	-	-	-	772	680
(Write back of)/allowance of doubtful debts	-	-	(19)	420	1,698	(431)
Bad debts written off	-	-	-	-	239	1,969
Recovery of bad debts written off	-	-	-	-	(43)	-
Other expenses	2,847	1,847	34,666	30,246	20,548	20,854
Total management expenses	<u>2,945</u>	<u>1,958</u>	<u>71,601</u>	<u>66,165</u>	<u>52,968</u>	<u>56,722</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**25 . INVESTMENT INCOME**

	<b>Continuing operations</b>		<b>Dis-</b>
	<b>Shareholders'</b>	<b>Life</b>	<b>continued</b>
	<b>fund</b>	<b>fund</b>	<b>General</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>business</b>
			<b>RM'000</b>
<b>2010</b>			
<b>Interest income</b>			
Securities available-for-sale	1,506	118,757	11,595
Securities held-for-trading	-	3,075	-
Securities held-to-maturity	-	9,757	-
Fixed and call deposit	3,059	28,294	2,165
<b>Policy loans and premium loans</b>	-	33,281	-
<b>Gross dividends</b>			
Securities available-for-sale	740	18,955	2,305
Securities held-for-trading	-	7,180	-
<b>Rental of properties</b>	-	15,891	-
<b>Accretion of discount, net of amortisation of premium</b>			
Securities available-for-sale	(51)	14,403	387
Securities held-to-maturity	-	4,110	-
Investment income	<u>5,254</u>	<u>253,703</u>	<u>16,452</u>

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**NOTES TO THE FINANCIAL STATEMENTS****25 . INVESTMENT INCOME (CONT'D)**

	<b>Continuing operations</b>		<b>Dis-</b>
	<b>Shareholders'</b>	<b>Life</b>	<b>continued</b>
	<b>fund</b>	<b>fund</b>	<b>General</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>business</b>
			<b>RM'000</b>
<b>2009</b>			
<b>Interest income</b>			
Malaysian Government Securities	-	15,484	1,696
Other government guaranteed low risk assets	-	3,929	866
Policy loans and premium loans	-	38,108	-
Unquoted corporate debentures and bonds			
- In Malaysia	1,078	90,012	8,373
- Outside Malaysia	-	970	-
Fixed and call deposits			
- In Malaysia	2,903	32,782	3,724
- Outside Malaysia	-	8	-
<b>Gross dividends</b>			
- Quoted investments in Malaysia	412	18,371	2,104
- Quoted investments outside Malaysia	-	75	86
- Quoted unit trust	21	5,908	244
- Unquoted unit trust	-	798	353
- Subsidiary	13,500	-	-
<b>Rental of properties</b>	-	16,092	-
<b>Accretion of discount, net of amortisation of premium</b>			
- In Malaysia	(7)	8,329	124
- Outside Malaysia	-	6,447	187
Investment income	<u>17,907</u>	<u>237,313</u>	<u>17,757</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**26 . OTHER OPERATING INCOME/(EXPENSES)**

	<b>Continuing operations</b>				<b>Discontinued operations</b>	
	<b>Shareholders' fund</b>		<b>Life fund</b>		<b>General business</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Other income</b>						
<b>Gain on sale of</b>						
- property, plant equipment	-	-	103	92	143	226
- securities						
- available-for-sale	264	-	27,963	-	9,692	-
- held-for-trading	-	-	10,858	-	-	-
- other government guaranteed low risk assets	-	-	-	4	-	-
- corporate debentures and bonds						
- in Malaysia	-	-	-	1,087	-	689
- outside Malaysia	-	-	-	263	-	-
- quoted investments						
- in Malaysia	-	22	-	-	-	-
<b>Foreign exchange</b>						
- unrealised gain	-	-	-	-	76	82
- realised gain	-	-	12,340	486	-	23
<b>Fair value gain on</b>						
- investment properties	-	-	10,080	10,000	-	-
- securities						
held-for-trading	-	-	38,585	-	-	-
- investments in investment-linked fund	-	-	-	4,496	-	-
- derivative	-	-	-	-	79	-
<b>Sundry income</b>						
- foreign account	-	-	-	-	13	74
- collateral interest	-	-	-	-	133	314
- others	492	364	5,012	2,949	622	360
	<b>756</b>	<b>386</b>	<b>104,941</b>	<b>19,377</b>	<b>10,758</b>	<b>1,768</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

**26 . OTHER OPERATING INCOME/(EXPENSES) (CONT'D)**

	<b>Continuing operations</b>				<b>Discontinued operations</b>	
	<b>Shareholders' fund</b>		<b>Life fund</b>		<b>General business</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Other expenditure</b>						
<b>Loss on sale of</b>						
- securities						
- available-for-sale	-	-	(2,625)	-	(208)	-
- quoted investment						
- in Malaysia	-	-	-	(24,890)	-	(1,220)
- Malaysian Government Securities	-	-	-	(788)	-	(410)
<b>Property, plant and equipment written off</b>	-	-	(491)	-	(972)	-
<b>Loss on liquidation of subsidiary</b>	(2,386)	-	-	-	-	-
<b>Write down of cost of quoted investments</b>	-	(368)	-	(4,028)	-	-
<b>Allowance for diminution in value of quoted investments</b>						
- in Malaysia	-	(1,214)	-	(8,838)	-	(2,157)
- outside Malaysia	-	-	-	(242)	-	-
<b>Investment expenses</b>						
- in Malaysia	(194)	(172)	(6,818)	(5,480)	(193)	(280)
- outside Malaysia	-	-	(84)	(68)	(20)	(21)
<b>Foreign exchange</b>						
- unrealised loss	-	-	(17,403)	(7,643)	-	-
- realised loss	-	-	-	-	(116)	-
<b>Fair value loss on</b>						
- derivative	-	-	(3,857)	-	-	-
<b>Sundry expenses</b>	-	-	(255)	-	-	-
	<b>(2,580)</b>	<b>(1,754)</b>	<b>(31,533)</b>	<b>(51,977)</b>	<b>(1,509)</b>	<b>(4,088)</b>
Net other (expenses)/ income	<b>(1,824)</b>	<b>(1,368)</b>	<b>73,408</b>	<b>(32,600)</b>	<b>9,249</b>	<b>(2,320)</b>

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**NOTES TO THE FINANCIAL STATEMENTS****27 . TAXATION**

	<b>Continuing operations</b>				<b>Discontinued operations</b>	
	<b>Shareholders' fund</b>		<b>Life fund*</b>		<b>General business</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current tax						
- Income tax expense	33,392	12,356	20,208	15,238	5,160	11,351
- Origination and reversal of temporary differences (Note 14)	(1)	(935)	308	406	1,517	(1,711)
- Income tax expense for investment-linked funds (Note 30(f))	-	-	1,200	(992)	-	-
- Origination and reversal of temporary differences of investment linked funds (Note 30(f))	-	-	3,086	360	-	-
<b>Tax expense</b>	<b>33,391</b>	<b>11,421</b>	<b>24,802</b>	<b>15,012</b>	<b>6,677</b>	<b>9,640</b>

The numerical reconciliations between the average effective tax and the applicable tax are as follows:-

Taxable profits as per income statement/ revenue account	175,485	71,581	327,111	204,713	31,395	33,523
Applicable tax rate	25%	25%	8%	8%	25%	25%
Applicable tax	43,871	17,895	26,169	16,377	7,849	8,381

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**NOTES TO THE FINANCIAL STATEMENTS****27 . TAXATION (CONT'D)**

	<b>Continuing operations</b>				<b>Discontinued operations</b>	
	<b>Shareholders' fund</b>		<b>Life fund*</b>		<b>General business</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Tax effect in respect of:-</b>						
Non-allowable expenses	653	299	-	-	203	318
Others						
- Differences in tax rate on foreign inward and offshore insurance	-	-	-	-	(1,364)	(746)
- others	622	(537)	331	(347)	(626)	792
Tax relief on actuarial surplus transferred	(11,637)	(2,850)	-	-	-	-
Non-taxable income						
- Tax exempt dividend income	(129)	(3,405)	(1,215)	(910)	(307)	(269)
- Deductible benefit arising from capital allowance	11	19	(483)	(108)	922	1,164
<b>Tax expense</b>	<b>33,391</b>	<b>11,421</b>	<b>24,802</b>	<b>15,012</b>	<b>6,677</b>	<b>9,640</b>

\* For Life Fund, those relate to taxable net investment income and other operating expenses only.



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**NOTES TO THE FINANCIAL STATEMENTS**

**28 . DIVIDENDS**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Dividend in respect of the financial year:		
- Tax-exempt interim dividend of 1.06 sen per share (2009: 21.75 sen per share)	2,119	43,500
- Single-tier dividend in-specie of 73.94 sen per share	147,881	-
	<u>150,000</u>	<u>43,500</u>

The Directors do not recommend any final dividend to be paid for the financial year ended 30 June 2010.

**29 . EARNINGS PER SHARE**

The basic earnings per share are calculated based on the profit for the financial year after taxation of RM166,812,000 (2009: RM84,043,000) divided by the weighted average number of 200,000,000 (2009: 200,000,000) ordinary shares in issue during the financial year.

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . INVESTMENT-LINKED BUSINESS**

**(a) Balance Sheet**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>		
Investments (Note 30(c))	-	240,315
Securities held-for-trading (Note 30(d))	344,014	-
Fixed and call deposits (Note 30(e))	126,794	121,966
Deferred tax assets (Note 30(g))	-	1,643
Receivable	3,476	1,777
Tax recoverable	-	53
Cash and bank balances	1,512	864
	<u>475,796</u>	<u>366,618</u>
<b>Liabilities</b>		
Tax payable	400	-
Deferred tax liabilities (Note 30(g))	1,443	-
Payables	1,026	-
Amount due to operating fund	1,402	678
	<u>4,271</u>	<u>678</u>
<b>Net asset value of funds</b>	<u>471,525</u>	<u>365,940</u>
<b>Represented by:</b>		
Unitholders' fund	<u>471,525</u>	<u>365,940</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . INVESTMENT-LINKED BUSINESS (CONT'D)**

**(b) Movement on unitholders' fund**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Net creation of units during the financial year	81,747	75,682
Net policy benefits	(29,449)	(20,689)
Investment gain/(loss) - net	57,573	(4,026)
	<u>109,871</u>	<u>50,967</u>
Taxation (Note 30(f))	(4,286)	632
	<u>105,585</u>	<u>51,599</u>
Increase for the financial year after taxation	365,940	314,341
Unitholders' fund as at 1 July	<u>471,525</u>	<u>365,940</u>
Unitholders' fund as at 30 June	<u><u>471,525</u></u>	<u><u>365,940</u></u>

**(c) Investments**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying</b>	<b>Market</b>	<b>Carrying</b>	<b>Market</b>
	<b>Value</b>	<b>Value</b>	<b>Value</b>	<b>Value</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Other government</b>				
<b>guaranteed low risk</b>				
<b>assets</b>				
At cost	-		7,532	
Unrealised loss	-		(9)	
	<u>-</u>	<u>-</u>	<u>7,523</u>	<u>7,523</u>
<b>Quoted in Malaysia:</b>				
Shares and warrants				
At cost	-		199,986	
Unrealised loss	-		(18,002)	
	<u>-</u>	<u>-</u>	<u>181,984</u>	<u>181,984</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . INVESTMENT-LINKED BUSINESS (CONT'D)**

**(c) Investments (cont'd)**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying Value</b>	<b>Market Value</b>	<b>Carrying Value</b>	<b>Market Value</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Unit trusts				
At cost	-		7,900	
Unrealised loss	-		(1,522)	
	<u>-</u>	-	<u>6,378</u>	6,378
<b>Total quoted investments</b>	<u>-</u>	<u>-</u>	<u>188,362</u>	<u>188,362</u>
<b>Unquoted in Malaysia:</b>				
Corporate debentures and bonds				
At cost	-		37,145	
Unrealised gain	-		138	
	<u>-</u>		<u>37,283</u>	
Unit trusts				
At cost	-		9,853	
Unrealised loss	-		(2,706)	
	<u>-</u>		<u>7,147</u>	
<b>Total unquoted investments</b>	<u>-</u>		<u>44,430</u>	
<b>Total investments</b>	<u>-</u>		<u>240,315</u>	
<b>Investments maturing after 12 months</b>	<u>-</u>		<u>67,517</u>	

Pursuant to the implementation of the Risk-Based Capital Framework, the investments of the Investment-linked Business have been reclassified in accordance with the accounting policies as described in Note 2(g) to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . INVESTMENT-LINKED BUSINESS (CONT'D)**

**(d) Securities held-for-trading**

The securities held under the Investment-Linked funds are summarised as follows:

	<b>2010</b>
	<b>RM'000</b>
Held-for-trading	344,014
The assets included in the above category are detailed in the table below:	
<b>At fair value:</b>	
<b>Securities held-for-trading:</b>	
Other government guaranteed low risk assets	12,685
Quoted in Malaysia:	
Equity securities in corporations	251,927
Unit trusts	5,079
	257,006
Unquoted in Malaysia:	
Corporate debentures and bonds	60,920
Unit trusts	9,946
Structured investment	3,457
	74,323
Total securities held-for-trading	344,014

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . INVESTMENT-LINKED BUSINESS (CONT'D)**

**(d) Securities held-for-trading (cont'd)**

The maturity structure of other government guaranteed low risk assets and corporate debt securities above is as follows:

	<b>2010</b>
	<b>RM'000</b>
Maturing within 12 months	4,043
Maturing after 12 months	69,562
	<u>73,605</u>

No comparative figures have been presented for 30 June 2009 based on the new classification of securities resulting from the implementation of the Risk-Based Capital Framework by virtue of the prospective application allowed under the transitional provision of the framework.

**(e) Fixed and call deposits**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Fixed and call deposits		
- with licensed banks	<u>126,794</u>	<u>121,966</u>

**(f) Taxation**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Current tax expense	1,200	(992)
Deferred taxation (Note 30 (g))	3,086	360
	<u>4,286</u>	<u>(632)</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . INVESTMENT-LINKED BUSINESS (CONT'D)**

**(f) Taxation (cont'd)**

The numerical reconciliation between the average effective tax rate and the applicable tax rate is as follows:-

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Taxable profit as per income statement	57,573	(4,026)
Applicable statutory tax rate	8%	8%
At applicable tax	4,606	(322)
<b>Tax effect in respect of:-</b>		
Non-taxable income		
- Tax exempt dividend income	(320)	(310)
	4,286	(632)

**(g) Deferred tax assets/(liabilities)**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of financial year	1,643	2,003
Transfer from unitholders' fund	(3,086)	(360)
At end of financial year	(1,443)	1,643

The deferred tax (liabilities)/assets arise in respect of:-

**Tax effects of:**

Temporary differences on unrealised (gain)/loss on securities held-for-trading/investments	(1,443)	1,643
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**NOTES TO THE FINANCIAL STATEMENTS**

**31 . SEGMENT INFORMATION**

	<b>Continuing operations</b>			<b>Dis-continued operations</b>	<b>Total RM'000</b>
	<b>Shareholders' fund RM'000</b>	<b>Life fund RM'000</b>	<b>Investment- linked business RM'000</b>	<b>General business RM'000</b>	
<b>2010</b>					
Cash flows from:					
Operating activities	157,723	9,805	648	1,241	169,417
Investing activities	(1,083)	(4,668)	-	(3,331)	(9,082)
Financing activities	(150,000)	-	-	-	(150,000)
	<u>6,640</u>	<u>5,137</u>	<u>648</u>	<u>(2,090)</u>	<u>10,335</u>
Net increase/(decrease) in cash and cash equivalents	6,640	5,137	648	(2,090)	10,335
Cash and cash equivalents at beginning of financial year	<u>55</u>	<u>1,782</u>	<u>864</u>	<u>22,155</u>	<u>24,856</u>
At end of financial year	<u><u>6,695</u></u>	<u><u>6,919</u></u>	<u><u>1,512</u></u>	<u><u>20,065</u></u>	<u><u>35,191</u></u>
<b>2009</b>					
Cash flows from:					
Operating activities	43,345	71,800	351	(1,042)	114,454
Investing activities	-	(76,841)	-	(1,656)	(78,497)
Financing activities	(43,500)	-	-	-	(43,500)
	<u>(155)</u>	<u>(5,041)</u>	<u>351</u>	<u>(2,698)</u>	<u>(7,543)</u>
Net (decrease)/increase in cash and cash equivalents	(155)	(5,041)	351	(2,698)	(7,543)
Cash and cash equivalents at beginning of financial year	<u>210</u>	<u>6,823</u>	<u>513</u>	<u>24,853</u>	<u>32,399</u>
At end of financial year	<u><u>55</u></u>	<u><u>1,782</u></u>	<u><u>864</u></u>	<u><u>22,155</u></u>	<u><u>24,856</u></u>



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**HONG LEONG ASSURANCE BERHAD**

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **32 . FINANCIAL INSTRUMENTS**

In the Company's balance sheet, investments would fall under the description of financial instruments. Insurers have to comply with the Malaysian Insurance Act and regulations in Malaysia. The Board is responsible for formulating policies and overseeing those risks associated with the financial instruments described below.

The responsibility for formulation, establishment and approval of investment policies rests with the Board as reported in the corporate governance framework in the Directors' Report. The deployment and execution of the investment policies is delegated to the Investment Committee ("IC") in which the members are appointed by the Board. The IC oversees the formulation of investment, risk strategy and asset allocation to determine the optimum risk and return profile.

Risk limits are in place at various levels and monitored by a risk manager to ensure all investment securities are in compliance with the Company's investment principles and philosophy. Sensitivity and stress tests are carried out on a regular basis to assess the resilience of the investment portfolios and the impact on Company's solvency.

The Company's asset and liability management ("ALM") model is being deployed to address the extent of assets and liabilities mismatch. The ALM model will enable management to assess the long term impact of the investment strategy, asset mix and product pricing strategy on the financial ability to meet its future obligations.

#### **(a) Credit risk**

Credit risk is the risk of loss due to inability or unwillingness of an issuer to service its debt obligations. The risk arising from lending and investment activities is monitored regularly with respect to single customer limit, exposure to sector type, credit rating and remaining term to maturity, in accordance to investment guidelines and limits approved by the Board and the authorities.

At balance sheet date, the credit exposure is within the investment guidelines and limits approved by the Board and the authorities. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

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**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(a) Credit risk (cont'd)**

The Company's exposure to credit risk is analysed as follows:-

	← 2010 →			2009
	Held-to- maturity RM'000	Available- for-sale RM'000	Held-for- trading RM'000	RM'000
<b>Corporate debentures and bonds</b>				
<b>Analysed by industry</b>				
Communication	-	67,780	3,924	89,755
Diversified holding	-	101,970	-	182,392
Finance	75,000	1,472,036	44,350	1,297,034
Industrial/Manufacturing	-	77,033	7,147	111,152
Infrastructure	73,494	160,635	1,124	217,902
Property/Plantation	-	122,950	-	120,051
Utilities	67,368	133,131	4,374	225,713
	<u>215,862</u>	<u>2,135,535</u>	<u>60,919</u>	<u>2,243,999</u>
<b>Other government guaranteed low risk assets</b>	-	583,510	12,685	539,731
	<u>215,862</u>	<u>2,719,045</u>	<u>73,604</u>	<u>2,783,730</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(a) Credit risk (cont'd)**

Rating of corporate debentures and bonds and other government guaranteed low risk assets securities on carrying value basis:-

	← 2010 →			2009
	Held-to- maturity RM'000	Available- for-sale RM'000	Held-for- trading RM'000	RM'000
<b>Analyse by rating</b>				
AAA	-	679,215	8,257	859,617
AA	143,365	1,006,126	40,667	956,712
A	72,497	272,880	11,995	282,920
BBB	-	57,585	-	33,698
Other government guaranteed low risk assets	-	583,510	12,685	539,732
Non rated	-	119,729	-	111,051
	<u>215,862</u>	<u>2,719,045</u>	<u>73,604</u>	<u>2,783,730</u>

The rating categories are based on the ratings by rating agencies.

**(b) Market risk**

**(i) Equity risk**

Adverse changes in the equity market impair the carrying value of the equity portfolio which could affect the solvency of the Company. The Board has set internal limits for maximum equity exposure and individual stock exposure, which are consistent with BNM's guidelines and has also imposed daily trading limits. The Company's IC decides on the appropriate asset allocation for equities on a regular basis in line with the investment and economic conditions at time of review.

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**NOTES TO THE FINANCIAL STATEMENTS**

**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(b) Market risk (cont'd)**

**(ii) Foreign currency risk**

The Company's main exposure to foreign currency risk arises from its foreign investments. The foreign exchange management policy is to minimise its exposure arising from currency movements. Derivative financial instruments held by the subsidiary are solely for purpose of managing foreign currency risk and are classified as financial assets and financial liabilities.

The following are the carrying amounts of the assets and liabilities that are denominated in currencies other than the functional currency of the Company:

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Assets:</b>		
Investments:		
- Singapore dollar	121,530	95,596
- US dollar	64,162	86,246
- Australian dollar	143,947	147,310
- Hong Kong dollar	40,804	-
<b>Liabilities:</b>		
Insurance liabilities:		
- Australian dollar	9,881	27,748

**(iii) Interest rate risk**

Investment activities are inherently exposed to interest rate risk. Interest rate risk arises principally from changes in the level of interest rates. The Company is actively managing such risk via the duration profile of the fixed income securities.

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32 . FINANCIAL INSTRUMENTS (CONT'D)

(b) Market risk (cont'd)

The average effective interest rate and maturity period for the financial assets and liabilities are as follows:-

	Non- Interest Bearing RM'000	Interest-bearing maturity period 1 Year or Less RM'000	1 to 5 Years RM'000	>5 Years RM'000	Total Carrying Value RM'000	Weighted Average Effective Interest Rate %
<b>2010</b>						
<b>Financial Assets</b>						
<b>Securities available-for-sale</b>						
Malaysian Government Securities	-	-	191,501	284,125	475,626	3.93%
Other government guaranteed low risk assets	-	-	40,102	67,782	107,884	5.05%
Corporate debt securities						
- Unquoted	-	130,872	1,142,235	862,428	2,135,535	5.06%
Equity securities in corporations						
- Quoted	458,192	-	-	-	458,192	
- Unquoted	2,147	-	-	-	2,147	
Unit trusts						
- Quoted	75,912	-	-	-	75,912	
- Unquoted	11,008	-	-	-	11,008	
Structured investments	-	-	121,634	55,165	176,799	7.09%
	<u>547,259</u>	<u>130,872</u>	<u>1,495,472</u>	<u>1,269,500</u>	<u>3,443,103</u>	

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**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(b) Market risk (cont'd)**

	<b>Non- Interest Bearing RM'000</b>	<b>Interest-bearing maturity period 1 Year or Less RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>&gt;5 Years RM'000</b>	<b>Total Carrying Value RM'000</b>	<b>Weighted Average Effective Interest Rate %</b>
<b>2010 (cont'd)</b>						
<b>Financial assets (cont'd)</b>						
<b>Securities held-to-maturity</b>						
Corporate debt securities						
- Unquoted	-	-	97,341	118,521	215,862	4.46%
	-	-	97,341	118,521	215,862	

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**NOTES TO THE FINANCIAL STATEMENTS**

**32 . FINANCIAL INSTRUMENTS (CONT'D)**

(b) Market risk (cont'd)

	Non- Interest Bearing RM'000	Interest-bearing maturity period 1 Year or Less RM'000	1 to 5 Years RM'000	>5 Years RM'000	Total Carrying Value RM'000	Weighted Average Effective Interest Rate %
<b>2010 (cont'd)</b>						
<b>Financial assets (cont'd)</b>						
<b>Securities held-for-trading</b>						
Malaysian Government Securities	-	-	2,011	-	2,011	3.62%
Other government guaranteed low risk assets	-	-	10,099	575	10,674	4.19%
Corporate debt securities						
- Unquoted	-	4,043	35,956	20,921	60,920	4.77%
Equity securities in corporations						
- Quoted	251,927	-	-	-	251,927	
Unit trusts						
- Quoted	5,079	-	-	-	5,079	
- Unquoted	9,946	-	-	-	9,946	
Structured investments	-	-	2,682	775	3,457	3.40%
Derivative assets	896				896	
	<u>267,848</u>	<u>4,043</u>	<u>50,748</u>	<u>22,271</u>	<u>344,910</u>	

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**NOTES TO THE FINANCIAL STATEMENTS**

**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(b) Market risk (cont'd)**

	<b>Non- Interest Bearing RM'000</b>	<b>Interest-bearing maturity period 1 Year or Less RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>&gt;5 Years RM'000</b>	<b>Total Carrying Value RM'000</b>	<b>Weighted Average Effective Interest Rate %</b>
<b>2010 (cont'd)</b>						
<b>Financial assets (cont'd)</b>						
Fixed and call deposit	-	1,177,977	27,417	24,887	1,230,281	2.69%
Policy loans	-	25,954	-	-	25,954	8.00%
Premium loans	-	629,292	-	-	629,292	8.00%
	<u>815,107</u>	<u>1,968,138</u>	<u>1,670,978</u>	<u>1,435,179</u>	<u>5,889,402</u>	
Investment receivables	42,886	-	-	-	42,886	
Cash and bank balances	15,126	-	-	-	15,126	
	<u>873,119</u>	<u>1,968,138</u>	<u>1,670,978</u>	<u>1,435,179</u>	<u>5,947,414</u>	



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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL INSTRUMENTS (CONT'D)

(b) Market risk (cont'd)

	<b>Non- Interest Bearing RM'000</b>	<b>Interest-bearing maturity period</b>			<b>Total Carrying Value RM'000</b>	<b>Weighted Average Effective Interest Rate %</b>
		<b>1 Year or Less RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>&gt;5 Years RM'000</b>		
<b>2010 (cont'd)</b>						
<b>Financial assets (cont'd)</b>						
Other financial assets*					214,872	
Advance to trustee					12,155	
<b>Total financial assets</b>					<u>6,174,441</u>	
Non-financial assets					321,382	
Non-current assets held-for-sale					346,595	
<b>Total assets</b>					<u><u>6,842,418</u></u>	

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL INSTRUMENTS (CONT'D)

(b) Market risk (cont'd)

	Non- Interest Bearing RM'000	Interest-bearing maturity period 1 Year or Less RM'000	1 to 5 Years RM'000	>5 Years RM'000	Total Carrying Value RM'000	Weighted Average Effective Interest Rate %
<b>2010 (cont'd)</b>						
<b>Financial liabilities</b>						
Investment payables	1,091	-	-	-	1,091	
Derivative liabilities	5,112	-	-	-	5,112	
Other financial liabilities*					826,329	
Other non-financial liabilities					5,188,695	
Non-current liabilities directly associated with non-current assets classified as held-for-sale					320,102	
<b>Total liabilities</b>					<b>6,341,329</b>	

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**NOTES TO THE FINANCIAL STATEMENTS****32 . FINANCIAL INSTRUMENTS (CONT'D)****(b) Market risk (cont'd)**

	<b>Non- Interest Bearing RM'000</b>	<b>Interest-bearing maturity period</b>			<b>Total Carrying Value RM'000</b>	<b>Weighted Average Effective Interest Rate %</b>
		<b>1 Year or Less RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>&gt;5 Years RM'000</b>		
<b>2009</b>						
<b>Financial Assets</b>						
Investments:						
Malaysian Government Securities	-	-	67,819	308,076	375,895	4.17%
Other government guaranteed low risk assets	-	49,633	39,987	74,217	163,837	4.20%
Corporate debentures and bonds						
- Unquoted	-	54,192	1,190,692	999,115	2,243,999	5.13%
Shares and warrants						
- Quoted	535,309	-	-	-	535,309	-
- Unquoted	12,392	-	-	-	12,392	-
Unit trusts						
- Quoted	70,658	-	-	-	70,658	-
- Unquoted	18,153	-	-	-	18,153	-
	<b>636,512</b>	<b>103,825</b>	<b>1,298,498</b>	<b>1,381,408</b>	<b>3,420,243</b>	

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**NOTES TO THE FINANCIAL STATEMENTS****32 . FINANCIAL INSTRUMENTS (CONT'D)****(b) Market risk (cont'd)**

	<b>Non- Interest Bearing RM'000</b>	<b>Interest-bearing maturity period</b>			<b>Total Carrying Value RM'000</b>	<b>Weighted Average Effective Interest Rate %</b>
		<b>1 Year or Less RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>&gt;5 Years RM'000</b>		
<b>2009 (cont'd)</b>						
<b>Financial assets (cont'd)</b>						
Structured investments	-	-	98,268	62,000	160,268	6.75%
Fixed and call deposits	-	976,901	70,161	-	1,047,062	2.16%
Policy loans	-	24,633	-	-	24,633	8.00%
Premium loans	-	595,648	-	-	595,648	8.00%
	636,512	1,701,007	1,466,927	1,443,408	5,247,854	
Investment receivables	40,402	-	-	-	40,402	
Advance to trustee	12,155	-	-	-	12,155	
Cash and bank balances	24,856	-	-	-	24,856	
Financial assets	713,925	1,701,007	1,466,927	1,443,408	5,325,267	

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**NOTES TO THE FINANCIAL STATEMENTS****32 . FINANCIAL INSTRUMENTS (CONT'D)****(b) Market risk (cont'd)**

	<b>Non- Interest Bearing RM'000</b>	<b>Interest-bearing maturity period</b>			<b>Total Carrying Value RM'000</b>	<b>Weighted Average Effective Interest Rate %</b>
		<b>1 Year or Less RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>&gt;5 Years RM'000</b>		
<b>2009 (cont'd)</b>						
Other financial assets*					437,752	
Other non-financial assets					113,512	
Non-current assets available-for-sale					60	
<b>Total assets</b>					<u>5,876,591</u>	
Financial liabilities						
- Other payables and accrued expenses	82,415	-	-	-	82,415	
Other financial liabilities*					703,725	
Other non-financial liabilities					4,605,477	
<b>Total liabilities</b>					<u>5,391,617</u>	

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**NOTES TO THE FINANCIAL STATEMENTS**

**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(c) Liquidity risk**

Liquidity risk arises due to inability of the Company to meet its financial obligations as and when they fall due. A significant amount of investible funds are placed with financial institutions as fixed and call deposits and other money market instruments. The Company endeavors to manage the maturity profiles of these instruments in order to ensure that sufficient funds are available at all times, to meet the day to day working capital requirements.

**(d) Estimated fair value**

The carrying values of financial instruments as at 30 June 2010 approximate the fair values, except for the following:-

	2010		2009	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
<b>Shareholders' Fund</b>				
Malaysian Government				
Securities	-	-	38,164	38,832
Other government guaranteed low risk assets*	-	-	24,963	24,248
Corporate debentures and bonds				
- Unquoted	-	-	199,117	200,513
Shares, warrants and loan stock				
- Quoted	-	-	57,989	57,989
- Unquoted	-	-	-	-
Unit trusts				
- Quoted	-	-	24,741	24,741
	<u>-</u>	<u>-</u>	<u>344,974</u>	<u>346,323</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**32 . FINANCIAL INSTRUMENTS (CONT'D)**

**(d) Estimated fair value (cont'd)**

	<b>2010</b>		<b>2009</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Life Fund</b>				
Malaysian Government				
Securities	-	-	337,731	337,020
Other government guaranteed				
low risk assets*	-	-	131,350	123,824
Corporate debentures and bonds				
- Unquoted	215,862	237,734	2,007,599	2,029,244
Shares, warrants and loan stock				
- Quoted	-	-	295,336	295,336
- Unquoted	-	-	-	-
Unit trusts				
- Quoted	-	-	60,790	60,802
- Unquoted	-	-	-	-
Structured investments	-	-	160,268	170,981
	<u>215,862</u>	<u>237,734</u>	<u>2,993,074</u>	<u>3,017,207</u>

\* The carrying value of these financial instruments were not written-down to its fair value in the previous financial year as the Directors were of the opinion that the diminution in value of these investments was temporary in nature.

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**NOTES TO THE FINANCIAL STATEMENTS**

**33 . CAPITAL COMMITMENTS**

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:-

	<b>General business and Shareholders' fund</b>		<b>Life fund</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Authorised and contracted for	776	240	776	1,100
Authorised but not contracted for	3,744	14,678	14,344	14,671
	<u>4,520</u>	<u>14,918</u>	<u>15,120</u>	<u>15,771</u>

**34 . IMMEDIATE AND ULTIMATE HOLDING COMPANIES**

The immediate and ultimate holding companies are HLA Holdings Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.



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### HONG LEONG ASSURANCE BERHAD

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## NOTES TO THE FINANCIAL STATEMENTS

### 35 . SIGNIFICANT RELATED PARTY TRANSACTIONS

#### (a) Related parties and relationships

The related parties of, and their relationships with the Company are as follows:-

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Fund Management Sdn Bhd and Hong Leong Share Registration Services Sdn Bhd ("HLCM Capital Group")	Subsidiary companies of ultimate holding company
MPI Holdings Sdn Bhd and its subsidiaries and associated companies as disclosed in its financial statements ("MPI Group")	Subsidiaries and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiaries and associated companies of ultimate holding company
Hong Leong Industries Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiaries and associated companies of ultimate holding company
Hume Industries (Malaysia) Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("HIMB Group")	Subsidiaries and associated companies of ultimate holding company

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**NOTES TO THE FINANCIAL STATEMENTS**

**35 . SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)**

**(a) Related parties and relationships (cont'd)**

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Financial Group Berhad	Penultimate holding company
Subsidiaries and associated companies of HLFG as disclosed in its financial statements ("HLFG Group")	Subsidiaries and associated companies of penultimate holding company
GuoLine Capital Assets Limited and its subsidiaries and associated companies as disclosed in its financial statements ("GuoLine Capital Assets Group")	Subsidiaries and associated companies of ultimate holding company
HLA Holdings Sdn Bhd	Holding company
Subsidiaries companies of HLAH as disclosed in its financial statements ("HLAH Group")	Subsidiary companies of holding company

**(b) The significant related party transactions during the financial year are set out below:-**

	<b>Ultimate Holding Company RM'000</b>	<b>Penultimate Holding Company RM'000</b>	<b>Key Management Personnel RM'000</b>	<b>* Other Related Parties RM'000</b>
<b>2010</b>				
<b>Income</b>				
Gross premium received/receivable	172	4,379	132	15,342
Rental income	1,608	15,022	-	2,716
Interest income	-	5,293	-	2,272
	<u>1,780</u>	<u>24,694</u>	<u>132</u>	<u>20,330</u>

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**NOTES TO THE FINANCIAL STATEMENTS****35 . SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)****(b) The significant related party transactions during the financial year are set out below:- (cont'd)**

	<b>Ultimate Holding Company RM'000</b>	<b>Penultimate Holding Company RM'000</b>	<b>Key Management Personnel RM'000</b>	<b>* Other Related Parties RM'000</b>
<b>2010 (cont'd)</b>				
<b>Expenditure</b>				
Commission paid/payable	-	10,637	-	3,572
Management and professional fee paid/payable	1,194	1,505	-	640
Authorised depository fee	-	48	-	-
Brokerage fee	-	305	-	-
Credit card merchant fees	-	9,031	-	-
Training expenses	-	14	-	-
Rental and deposit paid	-	19	-	2,705
Others	-	3,401	4	503
	<u>1,194</u>	<u>24,960</u>	<u>4</u>	<u>7,420</u>
<b>Assets</b>				
Receivables	63	797	-	4,660
Short term placements and fixed deposits in investments	-	228,341	-	-
Bank balances in cash and bank balances	-	30,183	-	-
	<u>63</u>	<u>259,321</u>	<u>-</u>	<u>4,660</u>
<b>Liabilities</b>				
Payables	<u>415</u>	<u>3,874</u>	<u>-</u>	<u>734</u>

\* The significant related party transactions and balances of immediate holding company are reported under other related parties.

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**NOTES TO THE FINANCIAL STATEMENTS****35 . SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)**

(b) The significant related party transactions during the financial year are set out below:- (cont'd)

	<b>Ultimate Holding Company RM'000</b>	<b>Penultimate Holding Company RM'000</b>	<b>Key Management Personnel RM'000</b>	<b>Other Related Parties RM'000</b>
<b>2009</b>				
<b>Income</b>				
Gross premium received/ receivable	94	5,748	111	15,616
Rental income	1,568	14,188	-	931
Interest income	-	11,814	-	2,350
	<u>1,662</u>	<u>31,750</u>	<u>111</u>	<u>18,897</u>
<b>Expenditure</b>				
Commission paid/payable	-	5,763	-	3,730
Management and professional fee paid/payable	1,127	3,461	-	633
Authorised depository fee	-	48	-	-
Brokerage fee	-	204	-	-
Credit card merchant fees	-	9,007	-	-
Training expenses	-	1	-	-
Rental and deposits paid	-	-	-	2,939
Other expenses	-	2,824	-	506
	<u>1,127</u>	<u>21,308</u>	<u>-</u>	<u>7,808</u>

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**

**35 . SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)**

(b) The significant related party transactions during the financial year are set out below:- (cont'd)

	<b>Ultimate Holding Company RM'000</b>	<b>Penultimate Holding Company RM'000</b>	<b>Key Management Personnel RM'000</b>	<b>Other Related Parties RM'000</b>
<b>2009 (cont'd)</b>				
<b>Assets</b>				
Receivables	19	326	-	2,687
Short term placements and fixed deposits in investments	-	414,136	-	-
Bank balances in cash and bank balances	-	13,758	-	-
	<u>19</u>	<u>428,220</u>	<u>-</u>	<u>2,687</u>
<b>Liabilities</b>				
Payables	<u>400</u>	<u>3,682</u>	<u>101</u>	<u>792</u>

The above transactions are transacted in the normal course of business of the Company on arm's length basis and on normal commercial terms.

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**NOTES TO THE FINANCIAL STATEMENTS**

**35 . SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)**

**(c) Key Management Personnel**

The remuneration of key management personnel are as follows:-

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
Executive Director		
- Salary and other remuneration	1,547	1,837
- Benefits-in-kind	31	197
	<u>1,578</u>	<u>2,034</u>
Non-executive Directors		
- Fees	405	365
	<u>1,983</u>	<u>2,399</u>
<b>Total Directors' Remuneration</b>	<b><u>1,983</u></b>	<b><u>2,399</u></b>
Other Key Management Personnel		
- Salary and other remuneration	2,615	5,913
- Benefits-in-kind	13	80
	<u>2,628</u>	<u>5,993</u>
<b>Total Other Key Management Personnel</b>	<b><u>2,628</u></b>	<b><u>5,993</u></b>
<b>Total paid to Key Management Personnel</b>	<b><u>4,611</u></b>	<b><u>8,392</u></b>

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel of the Company include all the Directors of the Company and employees of the Company who make certain critical decisions in relation to the strategic direction of the Company.

The remuneration, including benefits-in-kind, attributable to the Company's Chief Executive Officer, during the financial year amounted to RM1,578,000 (2009: RM2,034,000).

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**NOTES TO THE FINANCIAL STATEMENTS**

**36 . EMPLOYEE BENEFITS COST**

	<b>2010</b>	<b>2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Staff Cost</b>		
Wages, salaries and bonuses	44,772	43,939
Defined contribution retirement plan	5,303	5,186
Other employee benefits	3,247	2,993
	<u>53,322</u>	<u>52,118</u>
<b>Executive Director</b>		
Wages, salaries and bonuses	1,356	1,635
Defined contribution retirement plan	162	193
Other employee benefits	60	206
	<u>1,578</u>	<u>2,034</u>
	<u><u>54,900</u></u>	<u><u>54,152</u></u>

The number of employees of the Company (excluding Directors) at the end of the financial year was 726 (2009: 751).

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**NOTES TO THE FINANCIAL STATEMENTS**

**37 . SIGNIFICANT EVENT DURING THE YEAR**

- (a) On 8 April 2009, the penultimate holding company, Hong Leong Financial Group Berhad ("HLFG") announced its proposal to undertake a rationalisation scheme to streamline and consolidate HLFG's equity holdings in its insurance company in Hong Kong and takaful operator under HLA Holdings Sdn Bhd ("HLAH"), an intermediate insurance holding company, wholly-owned by HLFG ("Proposed Rationalisation").

Pursuant to the Proposed Rationalisation, the relevant parties had on 8 April 2009 entered into sale and purchase agreements in relation to the transfers/acquisition of the following equity interests:

- (i) Proposed transfer of 100% equity interest in Hong Leong Insurance (Asia) Limited ("HLIA") from Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary of Hong Leong Assurance Berhad ("HLA"), to HLAH ("Proposed HLIA Transfer") for a cash consideration of RM71,500,497. The Proposed HLIA Transfer was
- (ii) completed on 31 July 2009;and
- Proposed transfer of 10% equity interest in Hong Leong Tokio Marine Takaful Berhad ("HLTMT") from HLA to HLAH ("Proposed Transfer of 10% in HLTMT") for a cash consideration of RM9,592,954. The Proposed Transfer of 10% of HLTMT was completed on 1 September 2009.
- (b) On 16 December 2009, HLFG announced that it had entered into a sale and purchase agreement with HLAH for the transfer of 100% equity interest in HLA from HLFG to HLAH ("the Transfer") for a cash consideration of RM505 million. The proposed transfer was completed on 1 January 2010.
- (c) On 23 February 2010, the Company had placed its wholly-owned subsidiary, Allstate Health Benefits Sdn Bhd under Members' Voluntary Winding-up, pursuant to Section 254(1)(b) of the Companies Act, 1965.



## **COMPANY NUMBER (94613-X)**

### **HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **37 . SIGNIFICANT EVENT DURING THE YEAR**

- (d) On 18 June 2010, Hong Leong Investment Bank Berhad, on behalf of HLFGB, announced that HLAH and HLA had entered into various agreements with Mitsui Sumitomo Insurance Company, Limited (“MSIJ”) and its subsidiary, MSIG Insurance (Malaysia) Bhd (“MSIM”), in relation to the insurance businesses of HLA and MSIM (“Proposed Strategic Partnership”).

The Proposed Strategic Partnership involves the following:

- (i) Proposed merger of both non-life businesses of HLA and MSIM via a transfer of the non-life business of HLA (except for certain excluded assets and liabilities) to MSIM for a consideration of RM618,646,291 to be satisfied via the issuance of such number of new shares as shall represent 30% of the enlarged ordinary issued and paid-up capital of MSIM, in accordance with the terms of the conditional business transfer agreement dated 18 June 2010 ("Proposed Non-Life Business
- (ii) Upon completion of the Proposed Non-Life Business Merger, HLAH will dispose of 60,000,000 ordinary shares of RM1.00 each (representing a 30% equity interest) in HLA to MSIJ for a cash consideration of RM940 million in accordance with the terms of the conditional sale and purchase agreement dated 18 June 2010; and
- (iii) Upon completion of the Proposed Strategic Partnership, HLFGB (through its subsidiary) will effectively hold a 30% equity interest in the enlarged MSIM entity (i.e. the combined non-life Business of HLA and MSIM) and a 70% equity interest in HLA (which will only be involved in life business). MSIJ will hold the remaining 30% equity interest in HLA.

### **38 . GENERAL INFORMATION**

The Company is a public limited liability company that is incorporated and domiciled in Malaysia.

The business address of the Company is located at Level 3, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya.

The financial statements were authorised for issue by the Board in accordance with a resolution of the Directors on 18 August 2010.

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Choong Yee How and Loh Guat Lan, being two of the Directors of **HONG LEONG ASSURANCE BERHAD**, state that to the best of knowledge and belief of the Directors, the financial statements set out on pages 19 to 135 are drawn up in compliance with the provisions of the Companies Act, 1965 and Financial Reporting Standards modified by Bank Negara Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 June 2010 and of the results of the business of the Company and the cash flows of the Company for the financial year ended on that date.

On behalf of the Board

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Choong Yee How

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Loh Guat Lan

Petaling Jaya  
3 September 2010

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**

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**STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Dan Soo Ling, being the officer primarily responsible for the financial management of **HONG LEONG ASSURANCE BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 19 to 135 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared            )  
by the above named Dan Soo Ling            )  
at Petaling Jaya this 3 September 2010    )

Before me

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG ASSURANCE  
BERHAD (94613-X)**  
(Incorporated in Malaysia)

**Report on the Financial Statements**

We have audited the financial statements of Hong Leong Assurance Berhad, which comprise the balance sheet as at 30 June 2010, and the income statement, statement of changes in equity and cash flow statement for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 19 to 135.

**Directors' Responsibility for the Financial Statements**

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, modified by Bank Negara Malaysia, and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
HONG LEONG ASSURANCE BERHAD (94613-X)**

(Incorporated in Malaysia) (continued)

**Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, modified by Bank Negara Malaysia, and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 30 June 2010 and of its financial performance and cash flow for the financial year then ended.

**Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**Other Matters**

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

**PRICEWATERHOUSECOOPERS**  
**(No. AF: 1146)**  
**Chartered Accountants**

**SRIDHARAN NAIR**  
**(No. 2656/05/12 (J))**  
**Chartered Accountant**

Kuala Lumpur  
3 September 2010