

COMPANY NUMBER (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

CONTENTS	PAGES
DIRECTORS' REPORT	1 to 27
STATEMENT OF FINANCIAL POSITION	28
STATEMENT OF COMPREHENSIVE INCOME	29 and 30
STATEMENT OF CHANGES IN EQUITY	31
STATEMENT OF CASH FLOWS	32 and 33
NOTES TO THE FINANCIAL STATEMENTS	34 to 135
STATEMENT BY DIRECTORS	136
STATUTORY DECLARATION	137
INDEPENDENT AUDITORS' REPORT	138 and 139

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(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 2012.

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of life insurance business. There has been no significant change in the nature of the principal activity during the financial year.

FINANCIAL RESULTS

	RM'000
Profit for the financial year	<u><u>77,206</u></u>

DIVIDENDS

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

	RM'000
<u>In respect of the financial year ended 30 June 2012:</u>	
Dividend paid on 2 July 2012:	
- Gross interim taxable dividend of 36 sen per share, less income tax at 25%	<u><u>54,000</u></u>

The Directors do not recommend any final dividend to be paid for the financial year 30 June 2012.

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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements 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 financial statements 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 financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as 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.

VALUATION METHODS

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

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 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.

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 which is likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

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.

The Company adheres to Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance for Licensed Institutions which set out broad principles and minimum standards as well as specific requirements for sound corporate governance.

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.

The Board comprises the Chairman who is a Non-Independent Non-Executive Director, an Executive Director, three Non-Independent Non-Executive Directors and four 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board Responsibilities and Oversight (cont'd)

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

During the financial year ended 30 June 2012, six (6) Board Meetings were held and the attendance of the Directors was as follows:

Directors	Attendance
YBhg Tan Sri Quek Leng Chan (Chairman)	6/6
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong	6/6
Mr Choong Yee How	6/6
Mr Quek Kon Sean	6/6
Ms Loh Guat Lan	6/6
Mr Alan John Wilson	6/6
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Appointed on 30 September 2011)	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Appointed on 3 January 2012)	3/3
YBhg Datin Ngiam Pick Ngoh (Appointed on 1 June 2012)	1/1
YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Resigned on 14 March 2012)	3/4
Mr Tan Keok Yin (Retired on 29 October 2011)	2/2

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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board Responsibilities and Oversight (cont'd)

Nominating Committee

The members of the Nominating 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 Choong Yee How (Non-Independent Non-Executive Director)

YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Independent Non-Executive Director)
(Appointed on 30 September 2011)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
(Independent Non-Executive Director)
(Appointed on 14 March 2012)

Mr Tan Keok Yin (Independent Non-Executive Director)
(Retired on 29 October 2011)

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 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board Responsibilities and Oversight (cont'd)

Nominating Committee (cont'd)

During the financial year ended 30 June 2012, two (2) Nominating Committee Meetings were held and the attendance of the Members was as follows:

Members	Attendance
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong (Redesignated as Chairman on 14 March 2012)	2/2
YBhg Tan Sri Quek Leng Chan	2/2
Mr Choong Yee How	2/2
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Appointed on 30 September 2011)	1/1
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Appointed on 14 March 2012)	N/A
YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Resigned on 14 March 2012)	2/2
Mr Tan Keok Yin (Retired on 29 October 2011)	1/1

B. Directors' Remuneration

Remuneration Committee

The 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)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
(Independent Non-Executive Director)
(Appointed on 14 March 2012)
Mr Tan Keok Yin (Independent Non-Executive Director)
(Retired on 29 October 2011)

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Directors' Remuneration (cont'd)

Remuneration Committee (cont'd)

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 2012, 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 24(b) to the financial statements.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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 Company 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 Dato' Siow Kim Lun @ Siow Kim Lin (Independent Non-Executive Director)

(Appointed on 30 September 2011)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Independent Non-Executive Director)

(Appointed on 14 March 2012)

YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Independent Non-Executive Director)

(Resigned on 14 March 2012)

Mr Tan Keok Yin (Independent Non-Executive Director)

(Retired on 29 October 2011)

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

- (i) To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditor(s).
- (ii) To review the external audit fees.
- (iii) To review, with the external auditors, the audit plan.
- (iv) To review, with the external auditors, the audit report and audit findings and the management response thereto.
- (v) To consider the provision of non-audit services by the external auditors.
- (vi) To review the assistance given by the officers of the Company to the external auditors.
- (vii) To review the quarterly reports and annual financial statements of the Company prior to the approval by the Board.
- (viii) To review the performance and adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit function as stipulated in the Service Level Agreement.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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)

- (ix) To review the internal audit report and findings including any findings of internal investigations and the management's response thereto.
- (x) To review the adequacy and integrity of internal control systems, including risk management and management information to ensure the Company's compliance with established procedures, laws and applicable regulations stipulated by BNM.
- (xi) To review and monitor the business and financial risks facing the Company and to ensure that all high impact risks are adequately managed at various levels within the Company.
- (xii) To review any related party transactions that may arise within the Company.
- (xiii) Other functions as may be agreed to by the BARMC and the Board.

During the financial year ended 30 June 2012, six (6) BARMC meetings were held and the attendance of the members was as follows:

Members	Attendance
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong	6/6
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Appointed on 30 September 2011)	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Appointed on 14 March 2012)	2/2
YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Resigned on 14 March 2012)	3/4
Mr Tan Keok Yin (Retired on 29 October 2011)	2/2

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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

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.

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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

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 29 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.

Relationship with Auditors

The external auditors are appointed on the recommendation by the BARMC, which 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORATE

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

YBhg Tan Sri Quek Leng Chan (Chairman)

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

Mr Choong Yee How

Mr Quek Kon Sean

Ms Loh Guat Lan

Mr Alan John Wilson

YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Appointed on 30 September 2011)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Appointed on 3 January 2012)

YBhg Datin Ngiam Pick Ngoh (Appointed on 1 June 2012)

YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Resigned on 14 March 2012)

Mr Tan Keok Yin (Retired on 29 October 2011)

In accordance with Article 90 of the Company's Articles of Association, YBhg Dato' Siow Kim Lun @ Siow Kim Lin, YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin and YBhg Datin Ngiam Pick Ngoh retire at the forthcoming Annual General Meeting and being eligible, offer themselves for election.

In accordance with Article 109 of the Company's Articles of Association, Mr Quek Kon Sean and Ms Loh Guat Lan retire by rotation from the Board and, being eligible, offer themselves for re-election.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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

According to the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, the Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or convertible bonds and/or options over ordinary shares of the Company and/or its related corporations during the financial year are as follows:

Shareholdings in which Directors have direct interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	-	-	390,000
Hong Leong Financial Group Berhad	1.00	4,989,600	-	-	4,989,600
Narra Industries Berhad	1.00	8,150,200	-	-	8,150,200
Guoco Group Limited	USD0.50	1,056,325	-	-	1,056,325
GuocoLand Limited	⁽¹⁾	13,333,333	-	-	13,333,333
GuocoLand (Malaysia) Berhad	0.50	19,506,780	-	-	19,506,780
GuocoLeisure Limited	USD0.20	735,000	-	-	735,000

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have direct interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interest of					
Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	1.00	960,000	2,032,000 ⁽⁹⁾	-	2,992,000
		5,840,000 *	3,500,000 *	(1,120,000) ⁽¹⁰⁾	6,188,000 *
				(2,032,000) ⁽⁹⁾	
Interest of					
Mr Quek Kon Sean in:					
Hong Leong Financial Group Berhad	1.00	300,000	635,000 ⁽⁹⁾	-	935,000
		1,825,000 *	1,800,000 *	(350,000) ⁽¹⁰⁾	2,640,000 *
				(635,000) ⁽⁹⁾	

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have direct interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Dato' Chua Chuan Lim @					
Dato' Chua Chuan Teong in:					
Hong Leong Industries Berhad	0.50	8,000	-	-	8,000
Hong Leong Financial Group Berhad	1.00	268,643	-	-	268,643
GuocoLand (Malaysia) Berhad	0.50	151,171	-	-	151,171
Hong Leong Bank Berhad	1.00	30,000	6,000 ⁽⁸⁾	-	36,000
Malaysian Pacific Industries Berhad	0.50	3,000	-	-	3,000
Southern Steel Berhad	1.00	8,000 ⁽¹¹⁾	-	-	8,000
Interests of					
Ms Loh Guat Lan in:					
Hong Leong Financial Group Berhad	1.00	-	150,000 ⁽⁹⁾	(150,000)	-
		500,000 *	-	(150,000) ⁽⁹⁾	350,000 *

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	13,069,100	-	-	13,069,100
Hong Leong Financial Group Berhad	1.00	824,437,300	-	-	824,437,300
Hong Leong Capital Berhad	1.00	195,263,227	-	-	195,263,227
Hong Leong Bank Berhad	1.00	968,216,100	195,767,885 ⁽⁸⁾	-	1,163,983,985
Hong Leong MSIG Takaful Berhad	1.00	65,000,000	-	-	65,000,000
Hong Leong Assurance Berhad	1.00	140,000,000	-	-	140,000,000
Hong Leong Industries Berhad	0.50	246,136,603 ⁽⁶⁾	-	-	246,136,603 ⁽⁶⁾
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	-	-	17,352,872
	1.00	6,941 ⁽⁷⁾	-	-	6,941 ⁽⁷⁾
Guocera Tile Industries (Meru) Sdn Bhd	1.00	19,600,000	-	-	19,600,000

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	1.00	1,750,000	-	-	1,750,000
Century Touch Sdn Bhd (formerly known as Guocera Tile Industries (Labuan) Sdn Bhd) (In members' voluntary liquidation)	1.00	6,545,001	-	-	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	1.00	10,560,627	-	-	10,560,627
RZA Logistics Sdn Bhd	1.00	7,934,247	-	-	7,934,247
Guocera Tile Industries (Vietnam) Co., Ltd	(5)	5,286,500	-	-	5,286,500
Malaysian Pacific Industries Berhad	0.50	110,245,457 (6)	-	-	110,245,457 (6)
Carter Realty Sdn Bhd	1.00	7	-	-	7

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Carsem (M) Sdn Bhd	1.00	84,000,000	-	-	84,000,000
	100.00	22,400 ⁽⁷⁾	-	-	22,400 ⁽⁷⁾
Narra Industries Berhad	1.00	38,314,000	-	-	38,314,000
Guoco Group Limited	USD0.50	235,798,529	150,000	-	235,948,529
GuocoLand Limited	⁽¹⁾	819,244,363 ⁽⁶⁾	-	-	819,244,363 ⁽⁶⁾
		8,724,438 *	283,875 *	(9,008,313) ^{*(14)}	-
Southern Steel Berhad	1.00	301,541,202 ⁽¹¹⁾	-	-	301,541,202
Southern Speciality Wire Sdn Bhd	1.00	5,625,000 ⁽¹¹⁾	1,875,000	-	7,500,000 ⁽¹²⁾
Southern Pipe Industry (Malaysia) Sdn Bhd	1.00	54,383,093 ⁽¹¹⁾	-	-	54,383,093
	1.00	100,000 ^{(7) (11)}	-	-	100,000 ⁽⁷⁾
First Garden Development Pte Ltd	⁽¹⁾	63,000,000	-	-	63,000,000
Sanctuary Land Pte Ltd	⁽¹⁾	90,000	-	-	90,000

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	(2)	150,000,000	-	-	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(2)	-	3,150,000,000	-	3,150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	(3)	19,600,000	-	-	19,600,000
Nanjing Xinhaoning Property Development Co., Ltd	(3)	11,800,800	-	-	11,800,800
Nanjing Xinhaoxuan Property Development Co., Ltd	(3)	11,800,800	-	-	11,800,800

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Nanjing Mahui Property Development Co., Ltd	(2)	271,499,800	-	-	271,499,800
Beijing Cheng Jian Dong Hua Real Estate Development Company Limited	(2)	50,000,000	-	-	50,000,000
Belmeth Pte. Ltd.	(1)	40,000,000	-	-	40,000,000
Guston Pte. Ltd.	(1)	8,000,000	-	-	8,000,000
Perfect Eagle Pte. Ltd.	(1)	24,000,000	-	-	24,000,000
Lam Soon (Hong Kong) Limited	HKD1.00	140,008,659	-	-	140,008,659
Kwok Wah Hong Flour Company Limited	HKD100.00	9,800	-	-	9,800

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
M.C. Packaging Offshore Limited	HKD0.01	812,695	-	(812,695) ⁽¹³⁾	-
Guangzhou Lam Soon Food Products Limited	⁽⁴⁾	6,570,000	-	-	6,570,000
GuocoLand (Malaysia) Berhad	0.50	456,055,616	-	-	456,055,616
Guoman Hotel & Resort Holdings Sdn Bhd	1.00	277,000,000	-	-	277,000,000
JB Parade Sdn Bhd	1.00	28,000,000	-	-	28,000,000
	0.01	68,594,000 ⁽⁷⁾	-	-	68,594,000 ⁽⁷⁾
GuocoLeisure Limited	USD0.20	918,501,425	3,339,000	-	921,840,425

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
The Rank Group Plc	GBP13 ^{8/9} p	266,044,391	25,002,149	-	291,046,540
Park House Hotel Limited (In members' voluntary liquidation)	GBP10p	2,883,440	-	-	2,883,440
Interests of					
Mr Quek Kon Sean in:					
Hong Leong Industries Berhad	0.50	750,000	-	-	750,000
Malaysian Pacific Industries Berhad	0.50	281,250	-	-	281,250

HONG LEONG ASSURANCE BERHAD
 (Company No.94613-X)
 (Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Shareholdings in which Directors have indirect interests
Number of ordinary shares /preference shares/*shares issued or to be issued
or acquired arising from the exercise of options/convertible bonds

	Nominal value per share RM	As at <u>1/7/2011</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/6/2012</u>
Interests of					
YBhg Dato' Chua Chuan Lim @					
Dato' Chua Chuan Teong in:					
Hong Leong Company (Malaysia) Berhad	1.00	154,650	-	-	154,650
Hong Leong Financial Group Berhad	1.00	11,674,079	-	-	11,674,079
Hong Leong Bank Berhad	1.00	155,000	31,000 ⁽⁸⁾	-	186,000
Hong Leong Industries Berhad	0.50	2,298,036	-	-	2,298,036
Narra Industries Berhad	1.00	10,000	-	-	10,000
GuocoLand (Malaysia) Berhad	0.50	3,335,485	-	-	3,335,485
Malaysian Pacific Industries Berhad	0.50	861,764	-	-	861,764
Southern Steel Berhad	1.00	8,315,569 ⁽¹¹⁾	-	-	8,315,569

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Legend:

- (1) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
- (2) Capital contribution in RMB
- (3) Capital contribution in USD
- (4) Capital contribution in HKD
- (5) Capital contribution in VND
- (6) Inclusive of interest pursuant to Section 134(12)(c) of the Companies Act, 1965 in shares held by family member
- (7) Redeemable Preference Shares
- (8) Inclusive of shares acquired from rights issue
- (9) Exercise of share options
- (10) Share options lapsed
- (11) Shareholding as at 3 January 2012 when the corporation concerned became a related corporation
- (12) Became a wholly owned subsidiary during the financial year
- (13) Struck off during the financial year
- (14) Inclusive of redemption of convertible bonds

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONT'D)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company received or became entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the 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 its related corporations 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 acquisitions 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 for the provision of services including but not limited to project and sales management and any other management and consultancy services; and/or for construction, development, leases, tenancy, licensing, dealership and distributorship; and/or for the provision of treasury functions, advances in the conduct of normal trading, banking, 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 interests.

Neither at the end of the financial year, nor at anytime during the financial year, did there subsist any arrangement to which the Company was a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Executive Share Option Scheme.

HOLDING COMPANIES

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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
27 August 2012

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

		30.6.2012	30.6.2011	1.7.2010
	Note	RM'000	Restated RM'000	Restated RM'000
Assets				
Property, plant and equipment	3	92,477	94,326	87,186
Intangible assets	4	3,881	1,968	2,518
Investment properties	5	231,680	231,680	231,680
Other investments	6	6,832,199	5,838,215	4,741,868
- Held-to-maturity financial assets	6(a)	422,389	208,138	215,862
- Available-for-sale financial assets	6(b)	5,046,319	4,444,259	3,466,392
- Fair value through profit or loss financial assets	6(c)	539,814	469,982	371,337
- Loans and receivables	6(d)	823,677	715,836	688,277
Derivative assets	7	36	303	896
Tax recoverable		1,728	-	-
Reinsurance assets		28,018	25,714	23,723
Insurance receivables	8	61,550	43,837	32,895
Other receivables	9	15,905	27,043	49,853
Non-current assets held-for-sale	10	55	55	578,780
Cash and cash equivalents		970,781	1,023,380	1,185,053
Total assets		8,238,310	7,286,521	6,934,452
Equity, policyholders' fund and liabilities				
Share capital	11	200,000	200,000	200,000
Reserves	12	373,431	357,119	311,310
Total equity		573,431	557,119	511,310
Insurance contract liabilities	13	6,641,884	5,838,934	5,210,800
Deferred tax liabilities	14	28,526	38,629	18,987
Tax payables		2,966	18,348	31,741
Insurance payables	15	48,887	41,867	34,381
Other payables	16	886,197	735,844	571,414
Dividend payable	26	54,000	54,000	-
Derivative liabilities	7	2,419	1,780	5,112
Liabilities directly associated with assets classified as held-for-sale		-	-	550,707
Total liabilities		7,664,879	6,729,402	6,423,142
Total equity, policyholders' fund and liabilities		8,238,310	7,286,521	6,934,452

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

		2012	2011
	Note	RM'000	Restated RM'000
Operating revenue	17		
- continuing operations		2,055,125	1,623,844
- discontinued operations		-	82,111
		<u>2,055,125</u>	<u>1,705,955</u>
Continuing operations			
Gross earned premiums		1,653,030	1,306,005
Premiums ceded to reinsurers		(55,408)	(62,541)
Net earned premiums	18	<u>1,597,622</u>	<u>1,243,464</u>
Investment income	19	402,095	317,839
Realised gains	20	23,678	69,406
Fair value (losses)/gains	21	(17,281)	56,506
Fees and commission income	22	4,417	3,474
Other operating income-net	23	6,453	5,520
Other revenue		<u>419,362</u>	<u>452,745</u>
Gross benefits and claims paid		(726,363)	(612,101)
Claims ceded to reinsurers		45,774	49,984
Gross change to contract liabilities		(800,633)	(510,562)
Change in contract liabilities to reinsurers		616	(407)
Net benefits and claims		<u>(1,480,606)</u>	<u>(1,073,086)</u>
Fees and commission expense		(316,337)	(244,791)
Management expenses	24	(106,421)	(91,272)
Other expenses		<u>(422,758)</u>	<u>(336,063)</u>
Surplus/profit before taxation		113,620	287,060
Taxation of life insurance	25	(22,305)	(29,987)
Surplus after taxation/profit before taxation		91,315	257,073
Taxation	25	(14,109)	(43,579)
Profit for the financial year from continuing operations		<u>77,206</u>	<u>213,494</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 (CONT'D)**

		2012	2011
	Note	RM'000	Restated RM'000
Discontinued operations			
Profit from discontinued operations, net of tax		-	986
Gain on disposal of general insurance, net	35	-	629,839
Profit for the financial year from discontinued operations		-	630,825
Profit for the financial year		<u>77,206</u>	<u>844,319</u>
Other comprehensive income			
Change in available-for-sale reserves:			
Net (loss)/gain arising during the financial year		(19,097)	28,508
Net realised loss/(gain) transferred to Income Statement		9,904	(2,993)
		(9,193)	25,515
Tax effects thereon	14	2,299	(6,379)
		(6,894)	19,136
Total comprehensive income for the financial year		<u><u>70,312</u></u>	<u><u>863,455</u></u>
Earnings per share (sen)			
- continuing operations	27	38.60	106.75
- discontinued operations		-	315.41
		<u>38.60</u>	<u>422.16</u>

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

	Note	Issued and fully paid ordinary shares of RM1 each		Non- distributable	Distributable	Total RM'000
		No. of shares '000	Share capital RM'000	Available- for-sale reserves RM'000	Retained earnings RM'000	
At 1 July 2010		200,000	200,000	4,131	298,538	502,669
- change in accounting policy	2(v)	-	-	7,480	1,161	8,641
- as restated 1 July 2010		200,000	200,000	11,611	299,699	511,310
Total comprehensive income for the financial year		-	-	19,136	844,319	863,455
Dividend paid/ payable during the financial year	26	-	-	-	(817,646)	(817,646)
At 30 June 2011		<u>200,000</u>	<u>200,000</u>	<u>30,747</u>	<u>326,372</u>	<u>557,119</u>
At 1 July 2011		200,000	200,000	13,363	326,372	539,735
- change in accounting policy	2(v)	-	-	17,384	-	17,384
- as restated 1 July 2011		200,000	200,000	30,747	326,372	557,119
Total comprehensive income for the financial year		-	-	(6,894)	77,206	70,312
Dividend payable during the financial year	26	-	-	-	(54,000)	(54,000)
At 30 June 2012		<u>200,000</u>	<u>200,000</u>	<u>23,853</u>	<u>349,578</u>	<u>573,431</u>

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

	2012	2011
	RM'000	RM'000
Operating activities		
Profit for the financial year	77,206	844,319
Adjustments for:		
Investment income recorded in income statement	(402,095)	(320,409)
Realised gains recorded in income statement	(23,467)	(77,224)
Fair value losses/(gains) recorded in income statement	22,052	(45,009)
Foreign exchange gains	(20,001)	(24,390)
Proceeds from sale of fair value through profit or loss financial assets	113,365	152,415
Maturity of fair value through profit or loss financial assets	2,416	6,026
Purchase of fair value through profit or loss financial assets	(197,869)	(187,884)
Proceeds from sale of available-for-sale financial assets	995,628	447,615
Maturity of available-for-sale financial assets	340,695	217,885
Purchase of available-for-sale financial assets	(1,947,380)	(1,530,470)
Proceeds from sale of held-to-maturity financial assets	84,036	15,095
Maturity of held-to-maturity financial assets	11,800	-
Purchase of held-to-maturity financial assets	(292,994)	-
(Purchase)/proceeds from realisation of derivatives	(13,420)	8,027
Increase in loan and receivables	(105,914)	(27,369)
Cash proceeds from disposal of non-current asset held-for-sale	-	9,225
	<u>(1,433,148)</u>	<u>(1,356,467)</u>
Non-cash items:		
Depreciation of property, plant and equipment	5,309	5,195
Gain on disposal of property, plant and equipment	-	(5)
Impairment on property, plant and equipment	-	819
Property, plant and equipment written off	-	382
Intangible assets written off	-	191
Amortisation of intangible assets	1,821	2,375
Gain on disposal of non-current asset held-for-sale	-	(618,646)
Impairment on available-for-sale financial assets	15,019	22,212
Allowance for impairment	304	36
Tax expense	36,414	74,273
	<u>58,867</u>	<u>(513,168)</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 (CONT'D)**

	2012	2011
	RM'000	RM'000
Changes in working capital:		
Increase in reinsurance assets	(2,304)	(1,991)
Increase in insurance receivables	(18,017)	(10,978)
Decrease/(increase) in other receivables	9,619	(12,667)
Increase in insurance contract liabilities	832,817	509,910
Increase in insurance payables	7,020	7,486
Increase in other payables	150,353	168,043
	<u>979,488</u>	<u>659,803</u>
Cash used in operating activities	(317,587)	(365,513)
Dividend income received	110,799	47,115
Interest income received	254,566	230,376
Rental income received	16,996	17,071
Income taxes paid	(55,869)	(81,599)
Net cash inflow/(outflow) from operating activities	<u>8,905</u>	<u>(152,550)</u>
Investing activities		
Proceeds from sale of property, plant and equipment	-	5
Purchase of property, plant and equipment	(6,833)	(6,237)
Purchase of intangible assets	(361)	(465)
Net cash outflow from investing activities	<u>(7,194)</u>	<u>(6,697)</u>
Financing activities		
Dividends paid	(54,000)	(87)
Net cash outflow from financing activities	<u>(54,000)</u>	<u>(87)</u>
Effect of exchange rate changes on cash and cash equivalents	(310)	(2,339)
Net decrease in cash and cash equivalents	(52,599)	(161,673)
Cash and cash equivalents at beginning of the financial year	1,023,380	1,185,053
Cash and cash equivalents at end of the financial year	<u><u>970,781</u></u>	<u><u>1,023,380</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances	46,489	14,144
Fixed and call deposits with maturity of less than 3 months		
-Licensed financial institutions	924,292	989,114
-Others	-	20,122
	<u>970,781</u>	<u>1,023,380</u>

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 . CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 3, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya.

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

The Company is engaged principally in the underwriting of life insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 August 2012.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material to the financial statements.

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, in accordance with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, as modified by the Guidelines On Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

The preparation of financial statements in conformity with the FRS requires the Directors to exercise their judgement in the process of applying the Company's accounting policies. It also 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 could differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in Note 2(m) to the financial statements.

(i) Standards, amendments to published standards and interpretations that are effective and applicable for the Company

The new accounting standards, amendments and improvements to published standards and interpretations that are effective and applicable for the Company's financial year beginning on or after 1 July 2011 are as follows:

- Revised FRS 1 "First-time Adoption of Financial Reporting Standards"
- Amendments to FRS 1 "First-time Adoption of Financial Reporting Standards"
- Amendments to FRS 2 "Share-based Payment - Group Cash-settled Share-based Payment Transactions"
- Amendments to FRS 7 "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments"
- Improvements to FRSs (2010)
- Amendments to IC Interpretation 4 "Determining whether an Arrangement contains a Lease"

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(i) Standards, amendments to published standards and interpretations that are effective and applicable for the Company (cont'd)

The adoption of the above revised standards, amendments and interpretations does not have any significant impact to the financial statements of the Company other than enhanced disclosures as described below:

- Amendments to FRS 7 "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments"

Fair value

An entity shall disclose for each class of financial instruments, the methods and when valuation techniques is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it. An entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Liquidity risk

An entity shall disclose:

- (a) A maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities;
- (b) A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and
- (c) A description of how it manages the liquidity risk inherent in (a) and (b).

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations that are issued and applicable for the Company but not yet effective

For financial periods commencing 1 July 2012, the Company will be adopting the new IFRS-Compliance framework, Malaysian Financial Reporting Standard (“MFRS”). The Company will be required to prepare an opening statement of financial position and restate comparative financial information retrospectively as if the requirements of MFRS, have always been applied by the Company from the transition date of 1 July 2011. MFRS 1 “First-Time Adoption of Malaysian Financial Reporting Standard” provides certain mandatory exceptions and optional exemptions for first-time adoption of MFRS.

In the planning stage, the Company had completed its review of the MFRS requirements and noted there is no material financial impact arising from the adoption except for the reclassification of unallocated surplus and available-for-sale reserves of non-participating fund as equity instead of liability. The Company is now progressing to the implementation of the identified disclosure changes and will complete the process prior to the release of the interim results of the Company for the financial period ending 31 December 2012.

The new accounting standards, amendments and interpretations to existing standards that are relevant and applicable to the Company’s following financial periods are as follows:

Financial year beginning on/after 1 July 2012

- The revised MFRS 124 “Related Party Disclosures” (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
 - The name of the government and the nature of their relationship;
 - The nature and amount of each individually significant transactions; and
 - The extent of any collectively significant transactions, qualitatively or quantitatively.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations that are issued and applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2012 (cont'd)

The amended definition of ‘related party’ means that some entities will be required to make additional disclosures. For example, a subsidiary is now required to disclose transactions with an associate of its parent. An entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

The Company will apply this standard from financial year beginning on 1 July 2012.

- Amendment to MFRS 112 “Income Taxes” (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 “Investment Property”. As a result of the amendments, IC Interpretation 121 “Income taxes - recovery of revalued non-depreciable assets” will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The Company will apply this standard from financial year beginning on 1 July 2012.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations that are issued and applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2012 (cont'd)

- Amendment to MFRS 7 “Financial Instruments: Disclosures on Transfers of Financial Assets” (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The Company will apply this standard from financial year beginning on 1 July 2012.
- Amendment to MFRS 101 "Presentation of Items of Other Comprehensive Income" (effective from 1 July 2012) requires entities to separate items presented in other comprehensive income in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in other comprehensive income. The Company will apply this standard from financial year beginning on 1 July 2012.

Financial year beginning on/after 1 July 2013

- MFRS 10 “Consolidated Financial Statements” (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127 “Consolidated and Separate Financial Statements” and IC Interpretation 112 “Consolidation – Special Purpose Entities”. The Company will apply this standard from financial periods beginning on 1 July 2013.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations that are issued and applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2013 (cont'd)

- MFRS 12 “Disclosures of Interests in Other Entities” (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128 “Investments in Associates”. It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Company will apply this standard from financial periods beginning on 1 July 2013.
- MFRS 13 “Fair Value Measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial Instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones. The Company will apply this standard from financial periods beginning on 1 July 2013.
- Amendment to MFRS 119 “Employee Benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The Company will apply this amendment from financial periods beginning on 1 July 2013.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations that are issued and applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2013 (cont'd)

- The revised MFRS 127 "Separate financial statements" (effective from 1 January 2013) included the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10. The Company will apply this from financial periods beginning on 1 July 2013.
- Amendment to MFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are off-set in the statements of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset. The Company will apply the amendment from financial periods beginning on 1 July 2013.

Financial year beginning on/after 1 July 2014

- Amendment to MFRS 132 "Financial Instruments: Presentation" (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of "currently has a legally enforceable right of set-off" that the right to set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanism with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria. The Company will apply the amendment from financial periods beginning on 1 July 2014.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations that are issued and applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2015

- MFRS 9 “Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive income, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply. MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9. The Company will apply this standard from financial periods beginning on 1 July 2015.

The adoption of the above revised standards, amendments and interpretations is not expected to have any significant financial impact to the financial statements of the Company.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(b) 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.

(c) 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 during the financial year which they are incurred.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(c) 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 land	Over the lease period
Leasehold buildings	Over the remaining period of the lease or 50 years, whichever is shorter
Freehold buildings	50 years
Furniture and fittings	5 - 10 years
Renovation, equipment and computers	5 - 10 years
Motor vehicles	5 years

Depreciation on assets identified as capital work-in-progress commences 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 date of the statement of financial position.

At each date of the statement of financial position, 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(h)(iii) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "realised gains and losses" in profit or loss.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(d) 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 profit or loss.

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 profit or loss in the financial year in which they arise.

(e) 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised at its fair value separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), financial assets available-for-sale ("AFS"), financial assets held-to-maturity ("HTM") and loans and receivables ("LAR"). Classification of the financial assets is determined at initial recognition and relates to the purpose for which the investments were acquired.

(i) Financial assets at FVTPL

Financial assets at FVTPL comprise held-for-trading financial assets and financial assets other than held-for-trading that are designated at fair value through profit or loss.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

(i) Financial assets at FVTPL (cont'd)

- a) Held-for-trading financial assets are financial assets that are acquired and held principally for the purpose of selling in the short term 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 derivatives that are not designated for hedges and all financial assets held in the investment-linked funds.
- b) Financial assets other than held-for-trading that are designated at fair value are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets classified as FVTPL are subsequently measured at their fair values with the gain or loss recognised in the income statement. 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

(ii) AFS financial assets

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

AFS financial assets 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 financial assets 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 assets are sold or impaired, the accumulated fair value adjustments previously recognised in equity or policyholders' fund are included in the income statement as net realised gains or losses.

(iii) HTM financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention or the ability to hold to maturity.

Financial assets categorised as held-to-maturity are subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

(iv) Loans and receivables

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment.

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.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(h).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(e)(iii), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(h)(i)).

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at fair values with the gain or loss recognised in income statement.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(f) 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 i.e. the cost of the deposits/placements and accrued interest/profits. The fair value of fixed interest or yield-bearing deposits is measured at the face value or market value, whichever is lower.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(g) Derivative financial instruments and hedging

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into 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 and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises profits immediately.

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. The Company designated its derivatives as hedges of the fair value of recognised assets (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. The Company also documents their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(h) Impairment

(i) Financial assets, excluding insurance receivables

The Company assesses at each date of the statement of financial position whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets 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 asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss in respect of loans and other receivables and HTM financial assets 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 profit or loss.

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 profit or loss.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss on financial assets 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(h) Impairment (cont'd)

(i) Financial assets, excluding insurance receivables (cont'd)

(iii) Financial assets carried at fair value

In the case of investments classified as AFS, a significant or prolonged decline in the fair value of the financial assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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 equity or policyholders' fund, is transferred from equity through the statement of comprehensive income or from insurance contract liabilities to profit or loss.

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

(ii) Insurance receivables

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(h) Impairment (cont'd)

(ii) Insurance receivables (cont'd)

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 in profit or loss.

(iii) 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.

The impairment loss is charged to profit or loss immediately. Any 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 profit or loss immediately.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances and deposits held at call with financial institutions with maturities of three months or less.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(j) Product classification

An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. The Company defines insurance risk to be significant when the benefits payable on the occurrence of the insured event are 5% or more than the benefits payable if the insured event did not occur at any one point of the insurance contract. Based on this definition, all policy contracts issued by the Company are considered insurance contracts as at the date of this statement of financial position.

Investment contracts are those contracts that do not transfer significant insurance risk, but significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is the risk other than financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participation features (“DPF”). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the:
 - performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - profit or loss of the company, fund or other entity that issues the contract.

Contracts in the participating fund are classified as insurance contracts with DPF and contracts in the non-participating fund are classified as insurance contracts without DPF.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(j) Product classification (cont'd)

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF, or if the host insurance contract and/or investment contract itself is measured at fair value through profit or loss.

(k) Reinsurance

The Company cedes insurance risk in the normal course of business for its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in profit or loss.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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 profit or loss 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 profit or loss to the life insurance fund is made in the financial year of the actuarial valuation.

Gross premium

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.

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.

Reinsurance premium

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

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 profit or loss in the financial year in which they are incurred.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

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

Benefits, claims and expenses

Benefits and claims 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.

Benefits and claims 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.

Insurance contract liabilities

These liabilities comprise claims liabilities, actuarial liabilities, unallocated surpluses, AFS fair value reserves and net asset value attributable to unitholders.

(i) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and premiums are charged.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

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

Insurance contract liabilities (cont'd)

(i) Actuarial liabilities (cont'd)

These liabilities are measured by a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the fund level.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the accumulated amount, as declared to the policy owners, are set as the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

The liability is derecognised when the contract expires, is discharged or is cancelled.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(l) Life insurance underwriting results (cont'd)

Insurance contract liabilities (cont'd)

(ii) Unallocated surplus

Surplus in DPF are distributable to policyholders and shareholders in accordance with the relevant terms under the Insurance Act, 1996. The Company, however, has discretion over the amount and timing of these surpluses to policyholders and shareholders. Surpluses on non-DPF are attributable wholly to the shareholders and the amount and timing of the distribution to the shareholders is subject to the recommendation of the Company's appointed actuary.

As required by BNM Guidelines, unallocated surplus of both DPF and non-DPF where the amounts are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

(m) Valuation of insurance contract liabilities

The valuation of the insurance liability arising from policy benefits made under life insurance contracts is the Company's most critical accounting estimate. The assumptions in relation to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are changed as warranted. Any movement in the key assumptions will have an effect in determining the insurance contract liabilities.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(m) Valuation of insurance contract liabilities (cont'd)

The key assumptions used in the estimation of insurance contract liabilities are as follows:

(i) Interest rate

For the valuation of non-participating fund, the non-unit liabilities of the investment-linked funds and the guaranteed benefits liabilities of the participating fund, the weighted average of Malaysian Government bond yields, as described below, are used.

- (a) For cash flows with duration less than 15 years, Malaysian Government Bond zero coupon spot yields of matching duration are used; and
- (b) For cash flows with duration 15 years or more, Malaysian Government Bond zero coupon spot yields of 15 years to maturity are used

where duration is the term to maturity of each future cash flow.

For the valuation of total benefits liabilities of the participating fund, the net fund based yield is used for ordinary life participating fund while annuity fund will take a higher of the fund based yield and MGS spot rate. The fund based yield for both ordinary life participating fund and annuity fund is 6.5% per annum.

(ii) Mortality, morbidity, critical illness, expenses, lapse and surrenders

The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate.

Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

For the non-participating fund, the non-unit liabilities of the investment-linked funds and the guaranteed benefits liabilities of the participating fund, PRAD assumptions are added to the best estimates assumptions.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(m) Valuation of insurance contract liabilities (cont'd)

(ii) Mortality, morbidity, critical illness, expenses, lapse and surrenders (cont'd)

For the valuation of total benefit liabilities of the participating fund, the best estimates assumptions are used.

Adjustments to the liabilities at each reporting date are recorded in profit or loss. The liability is derecognised when the contract expires, is discharged or is cancelled.

As the valuation methods used to value liabilities are in accordance with the RBC Framework for insurers, the Company is deemed to have complied with the requirements of a liability adequacy test under FRS 4 Insurance Contracts.

(n) Other income 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.

(o) Taxation

Taxation on the income statement for the financial year 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 date of the statement of financial position, and any adjustment to tax payable in respect of previous financial years.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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 date of the statement of financial position 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 date of the statement of financial position.

A 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial instruments available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in equity or policyholders' fund.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(p) Foreign currencies (cont'd)

Transaction and balances (cont'd)

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets are recognised in income as part of the financial instruments fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity or policyholders' fund except for gain or loss attributable to the hedged risk (if the hedged item is an AFS financial asset) of a fair value hedge, which shall be recognised in profit or loss.

(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) 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 operations 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, or is part of a single co-ordinated major line of business or geographical area of operations exclusively with a view to resale.

(s) 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.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(s) Employee benefits (cont'd)

(ii) Equity compensation benefits

A trust has been set up for an 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 provides 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 Company accounts for ESOS transactions as cash-settled as it will provide its employees with HLFG shares. The fair value of the employee services rendered in exchange for the grant if the share options is recognised as an expense in the income statement over the vesting period with a corresponding increase in liability, which is re-measured at each date of the statement of financial position.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. At each date of the statement of financial position, the Company revises its estimates of the number of share options that are expected to vest and recognises the impact of the revision of original estimates, if any, in the measurement, with a corresponding adjustment to liability.

In the previous financial year, the Company had accounted for the financial assistance given to the trustee to purchase the HLFG shares for the purpose of the scheme, as advances to trustee and measured at cost, less any impairment.

During the current financial year, the Company reassessed the substance of the funding arrangement held with the trustee and determined that as the Company retains the majority of the risks and rewards of the fund arrangement, it would thus be more appropriate to recognise the underlying assets of those advances made to trustee in the Company's books. Consequently the advances to trustee have been reclassified to AFS investments and fair valued. This constitutes a change in accounting policy and is applied retrospectively in accordance with FRS108 Accounting Policies, Changes in Accounting Estimates and Errors. The impact of the change in accounting policy during the year is described in Note 2(v) to the financial statements.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(t) 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.

(u) 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.

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.

(v) Change in accounting policy and restatement of comparatives

(i) Change in accounting policy

During the financial year, the Company changed its accounting policy on the advances to trustee in respect of equity compensation benefits as described in Note 2(s)(ii) to the financial statements.

(ii) Reclassification of interest receivables

During the financial year, Company has reclassified its interest receivables from other receivables to the respective financial assets in the statement of financial position. As such, comparatives have been restated to conform with the current financial year's presentation. There is no impact to the financial performance in relation to financial years ended 30 June 2012 and 30 June 2011.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Change in accounting policy and restatement of comparatives (cont'd)**

The following tables disclose the adjustments that have been made in accordance with the change in accounting policy on the advances to trustee in respect of equity compensation benefits and reclassification of interest receivables in the Company's statement of financial position as at 1 July 2010, 30 June 2011 and 30 June 2012.

	1 July 2010			30 June 2011			
	As previously reported	Effects of note 2(v)(i)	Restated balance	As previously reported	Effects of note 2(v)(i)	Effects of note 2(v)(ii)	Restated balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Statement of financial position							
Assets							
Other investments							
- HTM financial assets	215,862	-	215,862	205,254	-	2,884	208,138
- AFS financial assets	3,443,103	23,289	3,466,392	4,367,828	36,495	39,936	4,444,259
- FVTPL financial assets	371,337	-	371,337	469,046	-	936	469,982
- Loans and receivables	688,277	-	688,277	715,646	-	190	715,836
Other receivables	62,008	(12,155)	49,853	86,531	(13,316)	(46,172)	27,043
Cash and cash equivalents	1,185,053	-	1,185,053	1,021,154	-	2,226	1,023,380

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(v) Change in accounting policy and restatement of comparatives (cont'd)

The following tables disclose the adjustments that have been made in accordance with the change in accounting policy on the advances to trustee in respect of equity compensation benefits and reclassification of interest receivables in the Company's statement of financial position as at 1 July 2010, 30 June 2011 and 30 June 2012. (cont'd)

	30 June 2012	
	Effects of note 2(v)(i) RM'000	Effects of note 2(v)(ii) RM'000
Statement of financial position		
Assets		
Other investments		
- HTM financial assets	-	9,318
- AFS financial assets	31,934	44,063
- FVTPL financial assets	-	1,491
- Loans and receivables	-	2,117
Other receivables	(12,547)	(59,580)
Cash and cash equivalents	-	2,591

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Change in accounting policy and restatement of comparatives (cont'd)**

The following tables disclose the adjustments that have been made in accordance with the change in accounting policy on the advances to trustee in respect of equity compensation benefits and reclassification of interest receivables in the Company's statement of financial position as at 1 July 2010, 30 June 2011 and 30 June 2012. (cont'd)

	1 July 2010			30 June 2011			
	As previously reported	Effects of note 2(v)(i)	Restated balance	As previously reported	Effects of note 2(v)(i)	Effects of note 2(v)(ii)	Restated balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Statement of financial position							
Liabilities							
Deferred tax liabilities	16,494	2,493	18,987	32,834	5,795	-	38,629
Equity							
Available-for-sale reserves	4,131	7,480	11,611	13,363	17,384	-	30,747
Retained earnings	298,538	1,161	299,699	326,372	-	-	326,372

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

(v) Change in accounting policy and restatement of comparatives (cont'd)

The following tables disclose the adjustments that have been made in accordance with the change in accounting policy on the advances to trustee in respect of equity compensation benefits and reclassification of interest receivables in the Company's statement of financial position as at 1 July 2010, 30 June 2011 and 30 June 2012. (cont'd)

	<u>30 June 2012</u>
	Effects
	of
	<u>note 2(v)(i)</u>
	RM'000
Statement of	
financial position	
Liabilities	
Deferred tax liabilities	4,847
Other payables	1,266
	<u><u> </u></u>
Equity	
Available-for-sale reserves	14,540
Retained earnings	(1,266)
	<u><u> </u></u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Change in accounting policy and restatement of comparatives (cont'd)**

The following tables disclose the adjustments effects of the change to each of the line items in the Company's income statement/statement of comprehensive income for the financial years ended 30 June 2011 and 30 June 2012.

	Effects to the financial year ended			
	As	Effects	Restated	Effects
	previously	of	balance	of
	reported	note 2(v)(i)	balance	note 2(v)(i)
	RM'000	RM'000	RM'000	RM'000
Continuing operations				
Other operating income-net	5,920	(400)	5,520	-
Employee benefits expense	39,140	761	39,901	1,266
Profit before taxation	258,234	(1,161)	257,073	(1,266)
Profit for the financial year from continuing operations	214,655	(1,161)	213,494	(1,266)

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Change in accounting policy and restatement of comparatives (cont'd)**

	Effects to the financial year ended		
	30 June 2011	30 June 2012	
	As	Effects	Effects
	previously	of	of
	reported	note 2(v)(i)	note 2(v)(i)
	RM'000	RM'000	RM'000
Other comprehensive income			
Change in available-for-sale reserves:			
Net gain/(loss) arising during the financial year	15,302	13,206	28,508
Net realised gain transferred to Income Statement	(2,993)	-	(3,792)
	12,309	13,206	25,515
Tax effects thereon	(3,077)	(3,302)	(3,792)
	9,232	9,904	948
	19,136	19,136	(2,844)
Total comprehensive income for the financial year	854,712	8,743	863,455
	(4,110)		
Earnings per share (sen):			
- continuing operations	107.33	(0.58)	106.75
	(0.63)		

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold RM'000	Freehold RM'000	Leasehold RM'000					
Cost									
At 1 July 2010	363	2,428	181	79,174	2,767	26,877	756	617	113,163
Additions	-	-	-	-	277	3,030	295	2,635	6,237
Impairment charge	(218)	-	-	(601)	-	-	-	-	(819)
Disposal	-	-	-	-	-	-	(29)	-	(29)
Written off	-	-	-	-	(1,115)	(12,015)	-	-	(13,130)
Transferred to non-current assets held-for-sale	218	-	-	601	1,400	23,302	440	-	25,961
At 30 June 2011	363	2,428	181	79,174	3,329	41,194	1,462	3,252	131,383
Additions	-	-	-	-	48	4,802	361	1,622	6,833
Reclassification	-	-	-	-	-	405	-	(3,778)	(3,373)
At 30 June 2012	363	2,428	181	79,174	3,377	46,401	1,823	1,096	134,843

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold RM'000	Freehold RM'000	Leasehold RM'000					
Accumulated depreciation									
At 1 July 2010	-	438	50	2,852	2,355	19,824	458	-	25,977
Charge for the year	-	34	4	1,584	161	3,188	224	-	5,195
Disposal	-	-	-	-	-	-	(29)	-	(29)
Written off	-	-	-	-	(1,036)	(11,712)	-	-	(12,748)
Transferred to non-current assets held-for-sale	-	-	-	-	1,287	17,106	269	-	18,662
At 30 June 2011	-	472	54	4,436	2,767	28,406	922	-	37,057
Charge for the year	-	35	3	1,583	131	3,336	221	-	5,309
At 30 June 2012	-	507	57	6,019	2,898	31,742	1,143	-	42,366

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold RM'000	Freehold RM'000	Leasehold RM'000					
Net carrying amount									
At 30 June 2011	363	1,956	127	74,738	562	12,788	540	3,252	94,326
At 30 June 2012	363	1,921	124	73,155	479	14,659	680	1,096	92,477

Included in property, plant and equipment are fully depreciated assets which are still in use as follows:-

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold RM'000	Freehold RM'000	Leasehold RM'000					
At cost									
At 30 June 2011	-	-	-	-	1,777	19,549	246	-	21,572
At 30 June 2012	-	-	-	-	2,263	22,902	754	-	25,919

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**4. INTANGIBLE ASSETS**

	2012	2011
	RM'000	RM'000
Cost		
At 1 July	62,008	34,573
Additions	361	465
Reclassification	3,373	-
Written off	-	(5,477)
Transferred from non-current assets held-for-sale *	-	32,447
At 30 June	<u>65,742</u>	<u>62,008</u>
Accumulated amortisation		
At 1 July	60,040	32,055
Amortisation	1,821	2,375
Written off	-	(5,286)
Transferred from non-current assets held-for-sale *	-	30,896
At 30 June	<u>61,861</u>	<u>60,040</u>
Net carrying amount	<u>3,881</u>	<u>1,968</u>

*Intangible assets transferred from non-current assets held-for-sale were pertaining to the remaining intangible assets held by the Company which were not transferred to MSIG Insurance (Malaysia) Bhd ("MSIM") upon merger of the non-life business with MSIM.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT PROPERTIES

	2012	2011
	RM'000	RM'000
At 30 June	231,680	231,680
The analysis of investment properties is as follows:-		
Freehold land and building	230,000	230,000
Leasehold land and building	1,680	1,680
	<u>231,680</u>	<u>231,680</u>

The fair value of the properties as at 30 June 2012 was estimated in-house based on open market valuation. Revaluation are performed annually based on the properties' fair market values using the direct value comparison and income approach. An independent professional valuation will be done every 3 years. The fair value changes are recorded in profit or loss.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**6. OTHER INVESTMENTS**

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
Malaysian Government Securities and other Government guaranteed assets	458,671	549,264	596,195
Debt securities	3,971,222	3,097,050	2,412,317
Equity securities	1,173,940	1,143,764	735,555
Unit and property trust funds	241,496	120,975	101,945
Structured investments	120,940	208,570	180,256
Loans	683,482	676,745	655,246
Deposits with financial institutions	182,448	41,847	60,354
	<u>6,832,199</u>	<u>5,838,215</u>	<u>4,741,868</u>

The Company's other investments are summarised by categories as follows:

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
HTM financial assests	422,389	208,138	215,862
AFS financial assets	5,046,319	4,444,259	3,466,392
FVTPL financial assets	539,814	469,982	371,337
Loans and receivables	823,677	715,836	688,277
	<u>6,832,199</u>	<u>5,838,215</u>	<u>4,741,868</u>

(a) HTM

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
At amortised cost:			
Debt securities			
- Unquoted in Malaysia	<u>422,389</u>	<u>208,138</u>	<u>215,862</u>
At fair value:			
Debt securities			
- Unquoted in Malaysia	<u>445,586</u>	<u>230,936</u>	<u>237,734</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**6. OTHER INVESTMENTS (CONT'D)****(b) AFS**

	30.6.2012	30.6.2011	1.7.2010
		Restated	Restated
	RM'000	RM'000	RM'000
At fair value:			
Malaysian Government Securities and other Government guaranteed assets	456,610	536,917	583,510
Debt securities			
- Unquoted in Malaysia	3,060,614	2,488,051	1,958,221
- Unquoted outside Malaysia	377,000	329,747	177,314
Equity securities			
- Quoted in Malaysia *	584,197	593,734	429,462
- Unquoted in Malaysia	2,147	2,147	2,147
- Quoted outside Malaysia	229,674	192,769	52,019
Unit trusts			
- Quoted in Malaysia	101,105	88,344	75,912
- Unquoted in Malaysia	116,769	11,330	11,008
Structured investments			
- Unquoted in Malaysia	118,203	201,220	176,799
	<u>5,046,319</u>	<u>4,444,259</u>	<u>3,466,392</u>

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

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

There is no new grant of options during the financial year (2011: NIL).

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**6. OTHER INVESTMENTS (CONT'D)****(c) FVTPL**

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
At fair value:			
Malaysian Government Securities and other Government guaranteed assets	2,061	12,347	12,685
Debt securities			
- Unquoted in Malaysia	78,273	71,114	60,920
- Unquoted outside Malaysia	32,946	-	-
Equity securities			
- Quoted in Malaysia	332,435	341,695	244,096
- Quoted outside Malaysia	25,487	13,419	7,831
Unit trusts			
- Quoted in Malaysia	11,116	8,131	5,079
- Unquoted in Malaysia	12,506	13,170	9,946
Structured investments			
- Unquoted in Malaysia	2,737	7,350	3,457
Fixed and call deposits			
- Licensed financial institutions	42,253	2,756	27,323
	<u>539,814</u>	<u>469,982</u>	<u>371,337</u>

(d) Loans and receivables

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
At cost:			
Fixed and call deposits			
- Licensed financial institutions	140,195	39,091	33,031
Policy loans	29,599	28,734	25,954
Premium loans	653,883	648,011	629,292
	<u>823,677</u>	<u>715,836</u>	<u>688,277</u>
At fair value:			
Fixed and call deposits			
- Licensed financial institutions	140,195	39,091	33,031
Policy loans	29,599	28,734	25,954
Premium loans	653,883	648,011	629,292
	<u>823,677</u>	<u>715,836</u>	<u>688,277</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**6. OTHER INVESTMENTS (CONT'D)****(e) Carrying value of financial instruments**

	HTM	AFS	FVTPL	LAR	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2010	215,862	3,443,103	371,337	688,277	4,718,579
- change in accounting policy (Note 2(v)(i))	-	23,289	-	-	23,289
- as restated 1 July 2010	215,862	3,466,392	371,337	688,277	4,741,868
Purchases	-	1,530,470	187,884	-	1,718,354
Maturities	-	(217,885)	(6,026)	-	(223,911)
Disposals	(14,999)	(549,839)	(126,424)	-	(691,262)
Fair value (losses)/gains recorded in:					
Income statement	-	(2,572)	42,275	-	39,703
Other comprehensive income	-	32,006	-	-	32,006
Insurance contract liabilities (Note 13)	-	125,420	-	-	125,420
Movement in impairment allowance (Note 21)	-	(20,735)	-	-	(20,735)
Movement in LAR	-	-	-	27,369	27,369
Accretion of discount, net of amortisation of premium (Note 19)	4,391	14,337	-	-	18,728
Movement in accrued interest	2,884	39,936	936	190	43,946
Currency translation differences	-	26,729	-	-	26,729
At 30 June 2011	<u>208,138</u>	<u>4,444,259</u>	<u>469,982</u>	<u>715,836</u>	<u>5,838,215</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**6. OTHER INVESTMENTS (CONT'D)****(e) Carrying value of financial instruments (cont'd)**

	HTM RM'000	AFS RM'000	FVTPL RM'000	LAR RM'000	Total RM'000
At 1 July 2011	205,254	4,367,828	469,046	715,646	5,757,774
- change in accounting policy (Note 2(v)(i))	-	36,495	-	-	36,495
- reclassification of comparatives (Note 2(v)(ii))	2,884	39,936	936	190	43,946
- as restated 1 July 2011	208,138	4,444,259	469,982	715,836	5,838,215
Purchases	292,994	1,947,380	197,869	-	2,438,243
Maturities	(11,800)	(340,695)	(2,416)	-	(354,911)
Disposals	(75,677)	(975,434)	(105,031)	-	(1,156,142)
Fair value gains/(losses) recorded in:					
Income statement	-	9,904	(21,145)	-	(11,241)
Other comprehensive income	-	(19,097)	-	-	(19,097)
Insurance contract liabilities (Note 13)	-	(31,892)	-	-	(31,892)
Movement in impairment allowance (Note 21)	-	(15,019)	-	-	(15,019)
Movement in LAR	-	-	-	105,914	105,914
Accretion of discount, net of amortisation of premium (Note 19)	2,301	2,476	-	-	4,777
Movement in accrued interest	6,433	4,127	555	1,927	13,042
Currency translation differences	-	20,310	-	-	20,310
At 30 June 2012	<u>422,389</u>	<u>5,046,319</u>	<u>539,814</u>	<u>823,677</u>	<u>6,832,199</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**7. DERIVATIVE FINANCIAL INSTRUMENTS**

	2012	2011
	RM'000	RM'000
Derivative assets:		
- Forward foreign contracts - fair value hedge	<u>36</u>	<u>303</u>
Derivative liabilities:		
- Forward foreign contracts - fair value hedge	<u>2,419</u>	<u>1,780</u>

The notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2012 was RM623.7 million (2011: RM386.3 million).

8. INSURANCE RECEIVABLES

	2012	2011
	RM'000	RM'000
Due premium including agents/brokers and co-insurers balances	62,346	44,329
Allowance for impairment	(796)	(492)
	<u>61,550</u>	<u>43,837</u>

9. OTHER RECEIVABLES

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
Investment receivables	2,814	4,333	39,810
Other receivables	13,091	22,710	10,043
Total other receivables	<u>15,905</u>	<u>27,043</u>	<u>49,853</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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

Continuing operations

	2012	2011
	RM'000	RM'000
Fair value		
At end of the financial year	<u>55</u>	<u>55</u>

Assets held-for-sale relate to an apartment for which Board approval was obtained in the previous financial year and the property has been actively marketed for sale through real estate agents.

The fair value of the property was estimated based on open market valuation by an independent professional valuer, Messr Raine & Horne International Zaki + Partners Sdn Bhd.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

11 . SHARE CAPITAL

	<u>2012</u>		<u>2011</u>	
	<u>No of shares '000</u>	<u>RM'000</u>	<u>No of shares '000</u>	<u>RM'000</u>
Ordinary shares of RM1.00 each				
Authorised:				
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>
Issued and fully paid up:				
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>

12 . RESERVES

Presently, Malaysian companies adopt the full imputation system. In accordance with the Finance Act, 2007, which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders ("single-tier system"). However, there is a transitional period of six years expiring on 31 December 2013, to allow companies to pay franked dividend to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 of the Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single-tier system. The change in the tax legislation also provides for the Section 108 balance to be locked in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 1967.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. During the transitional period, the Company may utilise the credits in the Section 108 as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007.

The Company has sufficient Section 108 balance and balance in the tax-exempt account to frank the payment of dividends out of its entire retained earnings as at 30 June 2012.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**13 . INSURANCE CONTRACT LIABILITIES**

The analysis of life insurance contract liabilities and the movements are as follows:

	2012			2011		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	90,597	(16,535)	74,062	58,413	(14,847)	43,566
Actuarial liabilities	4,961,896	(11,483)	4,950,413	4,350,248	(10,867)	4,339,381
Unallocated surplus	720,943	-	720,943	618,236	-	618,236
AFS fair value reserves	211,183	-	211,183	241,050	-	241,050
Net asset value attributable to unitholders (Note 35)	657,265	-	657,265	570,987	-	570,987
Life insurance contract liabilities	<u>6,641,884</u>	<u>(28,018)</u>	<u>6,613,866</u>	<u>5,838,934</u>	<u>(25,714)</u>	<u>5,813,220</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**13 . INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2010	3,505,171	1,705,629	5,210,800	(4,877)	(18,846)	(23,723)	5,187,077
Projected change for inforce policies at 30 June 2010	281,902	(22,349)	259,553	-	818	818	260,371
Experience variance	56,463	19,250	75,713	-	305	305	76,018
New business	99,982	85,241	185,223	-	(1,085)	(1,085)	184,138
Discount rate change	7,828	6,084	13,912	-	(6)	(6)	13,906
Adjustment due to changes in assumptions:							
Mortality and morbidity	1,646	(608)	1,038	-	448	448	1,486
Lapse rate	3,998	(395)	3,603	-	(33)	(33)	3,570
Policy expenses and inflation	1,286	10,066	11,352	-	-	-	11,352
Other changes	43,090	2,278	45,368	-	(40)	(40)	45,328
Change in provision for outstanding claims	2,392	(3,045)	(653)	(236)	(2,162)	(2,398)	(3,051)
Change in net asset value							
attributable to unitholders	-	99,462	99,462	-	-	-	99,462
Change in AFS fair value reserves (Note 6(e))	97,317	28,103	125,420	-	-	-	125,420
Change in unallocated surplus	(48,562)	(136,099)	(184,661)	-	-	-	(184,661)
Deferred tax effects: (Note 14)							
- Change in AFS fair value reserves	(4,948)	(2,248)	(7,196)	-	-	-	(7,196)
At 30 June 2011	4,047,565	1,791,369	5,838,934	(5,113)	(20,601)	(25,714)	5,813,220

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**13 . INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2011	4,047,565	1,791,369	5,838,934	(5,113)	(20,601)	(25,714)	5,813,220
Projected change for inforce policies at 30 June 2011	354,588	(103,914)	250,674	-	863	863	251,537
Experience variance	107,656	12,725	120,381	-	150	150	120,531
New business	189,446	28,758	218,204	-	(1,084)	(1,084)	217,120
Discount rate change	9,329	10,080	19,409	-	(30)	(30)	19,379
Adjustment due to changes in assumptions:							
Mortality and morbidity	13,878	1,900	15,778	-	(430)	(430)	15,348
Lapse rate	(11,636)	(219)	(11,855)	-	(80)	(80)	(11,935)
Policy expenses and inflation	2,947	(4,526)	(1,579)	-	-	-	(1,579)
Other changes	4,367	(3,731)	636	-	(5)	(5)	631
Change in provision for outstanding claims	29,941	2,243	32,184	(505)	(1,183)	(1,688)	30,496
Change in net asset value							
attributable to unitholders	-	86,278	86,278	-	-	-	86,278
Change in AFS fair value reserves (Note 6(e))	(24,216)	(7,676)	(31,892)	-	-	-	(31,892)
Change in unallocated surplus	33,063	69,644	102,707	-	-	-	102,707
Deferred tax effects: (Note 14)							
- Change in AFS fair value reserves	1,410	615	2,025	-	-	-	2,025
At 30 June 2012	<u>4,758,338</u>	<u>1,883,546</u>	<u>6,641,884</u>	<u>(5,618)</u>	<u>(22,400)</u>	<u>(28,018)</u>	<u>6,613,866</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAX**

	2012	2011
	RM'000	RM'000
At 1 July	(32,834)	(16,494)
- change in accounting policies (Note 2(v)(i))	(5,795)	(2,493)
- as restated 1 July	<u>(38,629)</u>	<u>(18,987)</u>
Recognised in:		
Income statement (Note 25)	5,779	(6,067)
Other comprehensive income	2,299	(6,379)
Insurance contract liabilities (Note 13)	2,025	(7,196)
At 30 June	<u><u>(28,526)</u></u>	<u><u>(38,629)</u></u>

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 the deferred taxes relate to the same tax authority.

	30.6.2012	30.6.2011	1.7.2010
	RM'000	Restated RM'000	Restated RM'000
Presented after appropriate offsetting as follows:			
Deferred tax liabilities	(28,571)	(38,999)	(21,228)
Deferred tax assets	45	370	2,241
	<u><u>(28,526)</u></u>	<u><u>(38,629)</u></u>	<u><u>(18,987)</u></u>

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

Deferred tax liabilities

	Property, plant and equipment RM'000	Investment properties RM'000	Financial assets RM'000	Total RM'000
At 1 July 2010	(822)	(3,585)	(14,328)	(18,735)
- Change in accounting policies (Note 2(v)(i))	-	-	(2,493)	(2,493)
- As restated 1 July 2010	(822)	(3,585)	(16,821)	(21,228)
Recognised in:				
Income statement	822	-	(5,018)	(4,196)
Other comprehensive income	-	-	(6,379)	(6,379)
Insurance contract liabilities	-	-	(7,196)	(7,196)
At 30 June 2011	<u><u>-</u></u>	<u><u>(3,585)</u></u>	<u><u>(35,414)</u></u>	<u><u>(38,999)</u></u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAX (CONT'D)****Deferred tax liabilities (cont'd)**

	Property, plant and equipment RM'000	Investment properties RM'000	Financial assets RM'000	Total RM'000
At 1 July 2011	-	(3,585)	(29,619)	(33,204)
- Change in accounting policies (Note 2(v)(i))	-	-	(5,795)	(5,795)
- As restated 1 July 2011	-	(3,585)	(35,414)	(38,999)
Recognised in:				
Income statement	-	-	6,104	6,104
Other comprehensive income	-	-	2,299	2,299
Insurance contract liabilities	-	-	2,025	2,025
At 30 June 2012	-	(3,585)	(24,986)	(28,571)

Deferred tax assets

	Allowance for impairment RM'000	Financial assets RM'000	Premium liabilities RM'000	Others RM'000	Total RM'000
At 1 July 2010	1,810	-	161	270	2,241
Recognised in:					
Income statement	(1,810)	351	(161)	(251)	(1,871)
At 30 June 2011	-	351	-	19	370
At 1 July 2011	-	351	-	19	370
Recognised in:					
Income statement	-	(306)	-	(19)	(325)
At 30 June 2012	-	45	-	-	45

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**15 . INSURANCE PAYABLES**

	2012	2011
	RM'000	RM'000
Amount due to reinsurers and cedants	26,794	22,905
Amount due to agents and insureds	22,093	18,962
	<u>48,887</u>	<u>41,867</u>

The carrying amounts disclosed above approximate the fair value at the date of the statement of financial position, and are payable within one year.

16 . OTHER PAYABLES

	2012	2011
	RM'000	RM'000
Amount due to insured/policyholders	765,564	606,617
Other payables and accrued liabilities	120,633	129,227
	<u>886,197</u>	<u>735,844</u>

The carrying amounts disclosed above approximate the fair value at the date of the statement of financial position, and are payable within one year.

17 . OPERATING REVENUE

	2012	2011	
	Continuing operations	Continuing operations	Dis-continued operations
	RM'000	RM'000	RM'000
Gross earned premiums (Note 18)	1,653,030	1,306,005	79,541
Investment income (Note 19)	402,095	317,839	2,570
	<u>2,055,125</u>	<u>1,623,844</u>	<u>82,111</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**18 . NET EARNED PREMIUMS**

	<u>2012</u>	<u>2011</u>	
	Continuing operations RM'000	Continuing operations RM'000	Dis- continued operations RM'000
(a) Gross Premiums			
- Insurance contracts	1,653,030	1,306,005	83,199
- Change in premium liabilities	-	-	(3,658)
	<u>1,653,030</u>	<u>1,306,005</u>	<u>79,541</u>
(b) Premiums ceded			
- Insurance contracts	(55,408)	(62,541)	(28,097)
- Change in premium liabilities	-	-	1,978
	<u>(55,408)</u>	<u>(62,541)</u>	<u>(26,119)</u>
Net earned premiums	<u>1,597,622</u>	<u>1,243,464</u>	<u>53,422</u>

19 . INVESTMENT INCOME

	<u>2012</u>	<u>2011</u>	
	Continuing operations RM'000	Continuing operations RM'000	Dis- continued operations RM'000
Interest income			
AFS financial assets	177,833	155,418	780
FVTPL financial assets	9,185	8,252	-
HTM financial assets	15,258	9,555	-
Fixed and call deposit	32,709	25,794	1,139
Policy loans and premium loans	32,623	34,468	-
Gross dividends			
AFS financial assets	100,728	36,170	570
FVTPL financial assets	11,811	12,122	-
Rental of properties	17,171	17,332	-
Accretion of discount, net of amortisation of premium			
AFS financial assets (Note 6(e))	2,476	14,337	81
HTM financial assets (Note 6(e))	2,301	4,391	-
	<u>402,095</u>	<u>317,839</u>	<u>2,570</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**20 . REALISED GAINS AND LOSSES**

	2012	2011	
	Continuing operations	Continuing operations	Dis-continued operations
	RM'000	RM'000	RM'000
Property, plant and equipment			
Realised gains	-	-	5
Derivatives			
Realised (losses)/gains	(13,420)	8,027	-
Foreign exchange			
Realised gains/(losses)	211	(7,397)	138
HTM financial assets			
Realised gains:			
Debt securities			
- in Malaysia	8,359	96	-
AFS financial assets			
Realised gains:			
Equity securities			
- quoted in Malaysia	35,140	22,363	502
- quoted outside Malaysia	13,215	18,774	-
Debt securities			
- in Malaysia	15,196	1,083	-
- outside Malaysia	18,541	3,107	-
Realised losses:			
Equity securities			
- quoted in Malaysia	(56,724)	(1,262)	(81)
- quoted outside Malaysia	(3,619)	(387)	-
- unquoted in Malaysia	(6)	-	-
Debt securities			
- in Malaysia	(7)	(984)	-
- outside Malaysia	(1,542)	(5)	-
	20,194	42,689	421

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**20 . REALISED GAINS AND LOSSES (CONT'D)**

	2012	2011	
	Continuing operations	Continuing operations	Dis-continued operations
	RM'000	RM'000	RM'000
FVTPL financial assets			
Realised gains:			
Equity securities			
- quoted in Malaysia	17,023	25,359	-
- quoted outside Malaysia	1,687	2,554	-
Debt securities			
- in Malaysia	1,011	223	-
Negotiable instrument of deposit			
- in Malaysia	99	1,018	-
Realised losses:			
Equity securities			
- quoted in Malaysia	(11,063)	(3,037)	-
Debt securities			
- in Malaysia	(66)	(126)	-
Structured investment			
- in Malaysia	(285)	-	-
Negotiable instrument of deposit			
- in Malaysia	(72)	-	-
	<u>8,334</u>	<u>25,991</u>	<u>-</u>
Net realised gains	<u>23,678</u>	<u>69,406</u>	<u>564</u>

21 . FAIR VALUE GAINS AND LOSSES

	2012	2011	
	Continuing operations	Continuing operations	Dis-continued operations
	RM'000	RM'000	RM'000
Impairment on AFS financial assets (Note 6(e))	(15,019)	(20,735)	(1,477)
Unrealised foreign exchange gains/(losses)	19,790	32,232	(583)
Fair value (losses)/gains:			
Asset held-for-sale	-	(5)	-
Derivatives	(907)	2,739	-
FVTPL financial assets	(21,145)	42,275	-
	<u>(17,281)</u>	<u>56,506</u>	<u>(2,060)</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**22 . FEES AND COMMISSION INCOME**

	<u>2012</u>		<u>2011</u>
	Continuing operations RM'000	Continuing operations RM'000	Dis- continued operations RM'000
Reinsurance commission income	4,404	3,270	5,818
Surrender charges and other contract fees	13	204	-
	<u>4,417</u>	<u>3,474</u>	<u>5,818</u>

23 . OTHER OPERATING INCOME-NET

	<u>2012</u>		<u>2011</u>
	Continuing operations RM'000	Continuing operations RM'000	Dis- continued operations RM'000
Other operating income:			
Other income	6,453	5,520	407
	<u>6,453</u>	<u>5,520</u>	<u>407</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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

	2012	2011	
	Continuing operations RM'000	Continuing operations RM'000	Dis-continued operations RM'000
Employee benefits expense (Note 24(a))	50,084	39,901	8,104
Directors' fees (Note 24(b))	598	397	57
Auditors' remuneration			
- statutory audits	325	293	-
- completion audit	-	75	160
Depreciation of property, plant and equipment	5,309	4,824	371
Amortisation of intangible assets	1,821	1,983	392
IGSF levy	-	-	193
Allowance for impairment	304	-	36
Recovery of bad debts written off	-	-	(42)
Property, plant and equipment written off	-	-	382
Intangible assets written off	-	-	191
Impairment of property, plant and equipment	-	-	819
Rental of offices	2,045	1,799	659
Entertainment and travelling	1,722	1,365	390
EDP expenses	6,952	7,188	996
Other expenses	37,261	33,447	2,938
	106,421	91,272	15,646

(a) Employee benefits expense

	2012	2011	
	Continuing operations RM'000	Continuing operations RM'000	Dis-continued operations RM'000
Wages, salaries and bonuses	41,211	33,837	6,855
Defined contribution retirement plan	5,215	3,971	809
Other employee benefits	3,658	2,093	440
	50,084	39,901	8,104

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**24 . MANAGEMENT EXPENSES (CONT'D)****(b) Directors' remuneration**

The details of remuneration receivable by Directors during the year are as follows:

	<u>2012</u>	<u>2011</u>
	Continuing operations RM'000	Dis- continued operations RM'000
Executive:		
-Wages, salaries and bonuses	2,537	1,292
-Defined contribution retirement plan	324	193
-Other employee benefits	62	8
	<u>2,923</u>	<u>1,543</u>
Non-executive:		
Fees	598	397
	<u>3,521</u>	<u>643</u>
Represented by:		
Directors' fees	598	397
Amount included in employee benefits expense	<u>2,923</u>	<u>586</u>

The remuneration, including benefits-in-kind, attributable to the Company's Chief Executive Officer, during the financial year amounted to RM2,923,000 (2011: RM2,129,000).

The number of Directors whose total remuneration received from the Company during the year that fall within the following bands is analysed below:

	<u>Numbers of Directors</u>	
	<u>2012</u>	<u>2011</u>
Executive directors		
RM2,100,001 - RM2,150,000	1	1
Non-executive directors		
Below RM50,000	3	3
RM50,001 - RM100,000	5	4
RM100,001 - RM150,000	1	1

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**25 . TAXATION**

	Continuing operations		Dis-
	Life	Share-	continued
	fund	holders'	operations
	RM'000	fund	RM'000
		RM'000	
2012			
Current income tax:			
Current financial year	28,144	13,651	-
Under provision in prior years	265	133	-
	<u>28,409</u>	<u>13,784</u>	<u>-</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	(6,104)	325	-
	<u>22,305</u>	<u>14,109</u>	<u>-</u>
2011			
Current income tax:			
Current financial year	24,763	46,346	1,267
Over provision in prior years	-	(4,170)	-
	<u>24,763</u>	<u>42,176</u>	<u>1,267</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	5,224	1,403	(560)
	<u>29,987</u>	<u>43,579</u>	<u>707</u>

The income tax for the Shareholders' and General funds is calculated based on the tax rate of 25% (2011: 25%) of the estimated assessable profit for the financial year. The income tax for the life fund is calculated based on the tax rate of 8% (2011: 8%) of the assessable investment income net of allowable deductions for the financial year. The taxes of the respective funds are disclosed in Note 35 to the financial statements.

In 2008, the Ministry of Finance has gazetted an order on the allowance of income tax set-off/credit for the tax charged on the surplus transferred from the Life fund to the Shareholders' fund with effect from year of assessment 2008 under Section 110B of the Income Tax Act, 1967.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	<u>2012</u>	<u>2011</u>
	Continuing operations RM'000	Dis- continued operations RM'000
Profit before taxation (Note 35)	<u>91,315</u>	<u>631,532</u>
Taxation at Malaysian statutory tax rate of 25%	22,829	157,883
Tax effects in respect of:		
Tax rate differential on foreign inward and offshore insurance	-	(861)
Income not subject to tax	(5,634)	(157,566)
Expenses not deductible for tax purpose	784	1,295
Unabsorbed capital allowance	-	(44)
S110B tax relief	(4,003)	-
Over provision in prior years	133	-
Tax expense for the financial year	<u>14,109</u>	<u>707</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

26 . DIVIDENDS

	2012	2011
	RM'000	RM'000
Dividend in respect of the financial year:		
- Tax-exempt interim dividend of 0.04 sen per share	-	87
- Single-tier dividend in-specie of 381.78 sen per share	-	763,559
- Taxable interim dividend of 36 sen per share (2011: 36 sen per share)	54,000	54,000
	<u>54,000</u>	<u>817,646</u>

The Directors do not recommend any final dividend to be paid for the financial year ended 30 June 2012.

27 . EARNINGS PER SHARE

The basic earnings per share are calculated based on the profit for the financial year after taxation from continuing and discontinued operations as stated below divided by the weighted average number of 200,000,000 (2011: 200,000,000) ordinary shares in issue during the financial year.

	2012	2011
	RM'000	RM'000
Profit for the financial year from continuing operations	77,206	213,494
Profit for the financial year from discontinued operations	-	630,825
	<u>77,206</u>	<u>844,319</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

28 . CAPITAL COMMITMENTS

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

	2012	2011
	RM'000	RM'000
Authorised but not contracted for:		
Property and equipment	-	1,209
Intangible assets	948	2,313
	<u>948</u>	<u>3,522</u>

29 . RELATED PARTY DISCLOSURES

(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 ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**29 . RELATED PARTY DISCLOSURES (CONT'D)****(a) Related parties and relationships (cont'd)**

<u>Related Parties</u>	<u>Relationship</u>
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
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	Immediate holding company
Subsidiaries companies of HLAH as disclosed in its financial statements ("HLAH Group")	Subsidiary companies of holding company
MSIG Insurance (Malaysia) Bhd	Associated company of holding company

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**29 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances**

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

	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties * RM'000
2012			
Income			
Gross premium received/ receivable	87	2,736	184
Rental income	1,615	15,404	2,628
Interest income	-	32,770	1,868
	<u>1,702</u>	<u>50,910</u>	<u>4,680</u>
Expenditure			
Commission paid/payable	-	(7,640)	(564)
Management and professional fee paid/payable	(1,373)	(4,261)	(977)
Authorised depository fee	-	(60)	-
Brokerage fee	-	(356)	-
Credit card merchant fees	-	(10,986)	-
Training expenses	-	(1,639)	-
Rental and deposit paid	-	(19)	(584)
	<u>(1,373)</u>	<u>(24,961)</u>	<u>(2,125)</u>
Assets			
Receivables	69	1,318	979
Cash and cash equivalents	-	318,190	-
	<u>69</u>	<u>319,508</u>	<u>979</u>
Liabilities			
Payables	434	3,972	54,720

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**29 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties * RM'000
2011			
Income			
Gross premium received/ receivable	97	4,708	6,607
Rental income	1,616	15,438	2,699
Interest income	-	6,928	2,273
	<u>1,713</u>	<u>27,074</u>	<u>11,579</u>
Expenditure			
Commission paid/payable	(1,587)	(7,864)	-
Management and professional fee paid/payable	(1,396)	(1,622)	(276)
Brokerage fee	-	(437)	-
Credit card merchant fees	-	(10,027)	-
Rental and deposits paid	-	(19)	(584)
Service support fees	-	(4,112)	(459)
	<u>(2,983)</u>	<u>(24,081)</u>	<u>(1,319)</u>
Assets			
Receivables	75	1,456	270
Short term placements and and fixed deposits	-	15,921	-
Cash and cash equivalents	-	173,632	-
	<u>75</u>	<u>191,009</u>	<u>270</u>
Liabilities			
Payables	408	3,872	54,735

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

29 . RELATED PARTY DISCLOSURES (CONT'D)

(b) Related party transactions and balances (cont'd)

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

The above transactions are transacted in the normal course of business of the Company based on agreed terms and conditions.

(c) Compensation of key management personnel

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 of Directors and other members of key management during the financial year was as follows:

	2012	2011
	RM'000	RM'000
Wages, salaries and bonuses	7,739	5,697
Defined contribution retirement plan	998	712
Other employee benefits	523	374
Directors' fees	598	454
	<u>9,858</u>	<u>7,237</u>
Included in the total key management personnel are:		
Directors' remuneration (Note 24(b))	<u>3,521</u>	<u>2,583</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

30 . RISK MANAGEMENT FRAMEWORK

The Company integrates the Risk Based Capital (“RBC”) Framework as the platform of Enterprise Risk Management (“ERM”) Framework which provide systematic approach to identifying, evaluating, monitoring and reporting of critical risks. The scope of risks covering (i) capital adequacy and structure; (ii) market risk; (iii) credit risk; (iv) insurance risk; and (iv) operational risk.

The RBC framework allows the Company to perform benchmarking and objectively quantifying the Capital Adequacy Ratio (“CAR”) position with its industrial peers. The Risk Management and Compliance keeps the Senior Management and Board of Audit and Risk Management Committee (“BARMC”) abreast of the developments on capital and risk profiles, Ringgit market movement, and material risks that require attention and action plans, if any.

Hence, the integrated RBC-ERM Framework fosters an operating environment:

- (i) to manage the Company’s risk exposure to potential earnings and capital volatility;
- (ii) to optimise the values to the Company’s various stakeholders (i.e. policyholders, shareholders, regulators, financial institutions, etc.).

The Company is measuring and managing the portfolio of risks in a harmonised and consistent manner, with a better understanding between returns, risk and performance measures. Risk-based performance management helps the Company in measuring, targeting and managing the portfolio of businesses, products, assets and liabilities consistently, and ensures risks are adequately taken into account.

Capital Management

The Company recognised the importance of effective capital management. The Capital Management Plan is embedded into the RBC-ERM Framework and assumes a critical role in steering the Company and stakeholder value. Having established the Internal CAR requirement, the Company will evaluate the allocation of capital to businesses, products and risks where the Company has optimum opportunity to add value.

The Capital Management Plan, which is approved by the Board of Directors, outlines the risk policies and strategies for the senior management to take proactive steps to conserve or consolidate the capital position.

On a half-yearly basis, the Company performs stress testing based on several adverse scenarios and stress levels as part of the proactive measures in monitoring and managing the capital position. The report will be presented to the BARMC and Board of Directors will be updated on the stress test results.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

30 . RISK MANAGEMENT FRAMEWORK (CONT'D)

Risk Governance Structure

The Company emphasises good and effective governance structure with strong lines of defense and a healthy risk culture to provide reasonable assurance to the BARMC and Board of Directors:

- (a) First line of defense: Under the leadership of the Chief Executive Officer, all operating and business units are responsible and accountable for the effective and timely implementation of action plans. The monthly Executive Committee ("EXCO") meetings build an appropriate risk culture to encourage constant communication.
- (b) Second line of defense: Risk Management and Compliance, a risk oversight department, is tasked to formulate and continuously improve the Risk Management Framework and to promote risk awareness culture with regular meetings with the senior management and/or line managers in the light of risk analyses and risk action plan; and
- (c) Third line of defense: Internal Auditors perform a "check and balance" role by conducting independent and regular reviews on the Company's internal control systems and Risk Management Framework.

31 . REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the RBC Framework is provided below:

	2012	2011
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up) (Note 11)	200,000	200,000
- Reserves, including retained earnings	2,261,887	2,054,837
Eligible Tier 2 capital		
- Eligible reserves	235,036	254,412
	<u>2,696,923</u>	<u>2,509,249</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2012 and 2011.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

32 . INSURANCE RISK

The risk underlying any insurance contract is the likelihood of the insured event occurring and the uncertainty in the amount of the resulting claims. The risk is random and therefore unpredictable.

For a portfolio of insurance contracts, the principal risk that the Company faces is that claims and benefit payments exceed the amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and the amount of claims and benefits will vary from year to year from the level established using statistical estimation techniques.

Concentration of the life insurance contract liabilities

Life insurance contracts offered by the Company include whole life, endowment, term assurance, annuity contracts, investment-link contracts and accidents and health riders.

The main risks that the Company is exposed to are the following:

- Mortality risk – risk of loss arising due to policyholder’s death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder’s health experience being different than expected.
- Longevity risk – risk of loss arising due to the annuitants living longer than expected.
- Investment return / interest rate risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Lapse risk – risk of loss arising due to policyholder surrender experience being different than expected.

The risks vary in relation to the location of the risk insured by the Company, type of risk insured or by industry.

The Company’s underwriting strategy is designed to endure that risks are well diversified in term of type of risk and the level of insured benefits. This is broadly achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that product reflects policyholder’s health conditions and family medical history, regular view of actual claims experience, as well as detailed claims procedures.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

32 . INSURANCE RISK (CONT'D)

Concentration of the life insurance contract liabilities with DPF by type of the contract as at the date of statement of financial position, net of reinsurance are as follows:

	Net of reinsurance		
	With DPF RM'000	Without DPF RM'000	Total RM'000
2012			
Whole Life	1,003,055	50,097	1,053,152
Endowment	1,213,838	203,466	1,417,304
Term	1,225,212	355,130	1,580,342
Accident and health	10,441	19,737	30,178
Annuity	392,581	-	392,581
Others	468,739	8,117	476,856
	<u>4,313,866</u>	<u>636,547</u>	<u>4,950,413</u>
2011			
Whole Life	807,551	42,639	850,190
Endowment	1,016,329	281,836	1,298,165
Term	1,213,957	348,660	1,562,617
Accident and health	9,230	17,375	26,605
Annuity	382,704	-	382,704
Others	213,520	5,580	219,100
	<u>3,643,291</u>	<u>696,090</u>	<u>4,339,381</u>

As all of the business above is derived from Malaysia, the entire life liabilities are in Malaysia.

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on the past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

32 . INSURANCE RISK (CONT'D)

Key assumptions (cont'd)

The table below shows the key underlying assumptions used for valuation of life insurance contract liabilities:-

Assumptions	Description
Valuation method	<p>Gross Premium Valuation</p> <p>For Participating Fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none">(i) Fund based yield for total benefits (i.e guaranteed and non- guaranteed cash flow), and(ii) For guaranteed cash flows, Malaysia Government Bond zero coupon spot yields (as outlined below). <p>For Ordinary Life Non Participating business, only (ii) is applicable.</p>
Interest Rate	<p>The risk-free discount rate was derived from a yield curve, as follows:</p> <ul style="list-style-type: none">(i) for durations of less than 15 years: zero-coupon spot yield of Malaysia Government Bond with matching duration; and(ii) for duration of 15 years or more: zero-coupon spot yield of Malaysia Government Bond with 15 years term to maturity, where duration is the term to maturity of each future cash flow. <p><i>(Data source: Malaysia Government Bond zero coupon spot yield from Bondweb, a bond pricing agency)</i></p>
Mortality, Disability, Dread Disease, Expense, Lapse and Surrenders	<p>Participating fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none">(i) Best estimates for total benefits (i.e guaranteed and non-guaranteed cash flow), and(ii) Best estimate plus provision for risk of adverse deviation (PRADs) for guaranteed cash flows only. <p>Non-participating and non-unit reserves of Investment Linked Fund: Best estimates plus PRADs.</p>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

32 . INSURANCE RISK (CONT'D)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumption held constant, showing the impact on gross and net liabilities. The correlations of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

Sensitivity analysis produced is based on parameters set out as follows:

	Change in Assumption	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000
	%		
Life insurance contracts			
2012			
Mortality	+10%	59,184	48,626
Longevity	-10%	(46,559)	(37,506)
Discount rate	-0.5%	352,096	351,879
Expenses	+10%	53,734	53,737
Lapse and surrender	+10%	(25,518)	(25,321)
Lapse and surrender	-10%	33,655	33,456
2011			
Mortality	+10%	43,456	33,145
Longevity	-10%	(42,476)	(33,703)
Discount rate	-0.5%	281,564	281,346
Expenses	+10%	45,793	45,795
Lapse and surrender	+10%	(28,245)	(28,046)
Lapse and surrender	-10%	29,923	29,719

The method used and significant assumptions made for deriving sensitivity information did not change from previous period.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS

The Board of Directors 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 of Directors 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 of Directors. The IC oversees the formulation of investment and risk strategy and asset allocation to determine the optimum risk and return profile.

Risk limits are in place at various levels and are monitored by a risk manager to ensure 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 the Company's solvency.

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

(a) Credit risk

Credit risk is the risk of loss due to inability or unwillingness of a counterparty to service its debt obligations. The credit risk and investment activities are monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved by the Board of Directors and the authorities.

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

There were no significant changes to the credit risk management of the Company.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure by credit rating**

The below tabulation provides the breakdown of the Company's financial assets (excluding financial assets classified as non-current assets held-for-sale) in relation to credit risk exposure:-

	Neither past-due nor impaired				Not subject to credit risk RM'000	Past-due but not impaired RM'000	Total RM'000
	Investment grade			Not rated RM'000			
	AAA to AA RM'000	A RM'000	BBB to BB RM'000				
2012							
HTM financial assets	422,389	-	-	-	-	-	422,389
AFS financial assets	2,759,890	495,613	250,187	506,737	1,033,892	-	5,046,319
FVTPL financial assets	111,665	21,758	22,786	2,061	381,544	-	539,814
Loan and receivables	119,452	-	-	704,225	-	-	823,677
Derivatives	32	-	-	-	4	-	36
Reinsurance assets	626	6,904	-	20,488	-	-	28,018
Insurance receivables	-	-	-	57,661	-	3,889	61,550
Other receivables	-	-	-	15,905	-	-	15,905
Cash and cash equivalents	947,725	-	-	23,056	-	-	970,781
	<u>4,361,779</u>	<u>524,275</u>	<u>272,973</u>	<u>1,330,133</u>	<u>1,415,440</u>	<u>3,889</u>	<u>7,908,489</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure by credit rating (cont'd)**

The below tabulation provides the breakdown of the Company's financial assets (excluding financial assets classified as non-current assets held-for-sale) in relation to credit risk exposure:- (cont'd)

	Neither past-due nor impaired				Not subject to credit risk RM'000	Past-due but not impaired RM'000	Total RM'000
	Investment grade			Not rated RM'000			
	AAA to AA RM'000	A RM'000	BBB RM'000				
2011							
HTM financial assests	208,138	-	-	-	-	-	208,138
AFS financial assets	2,277,709	449,423	149,557	679,246	888,324	-	4,444,259
FVTPL financial assets	72,877	18,641	-	2,049	376,415	-	469,982
Loan and receivables	39,092	-	-	676,744	-	-	715,836
Derivatives	-	15	202	2	84	-	303
Reinsurance assets	650	4,515	-	20,549	-	-	25,714
Insurance receivables	-	-	-	41,964	-	1,873	43,837
Other receivables	-	-	-	27,043	-	-	27,043
Cash and cash equivalents	982,001	-	-	41,379	-	-	1,023,380
	<u>3,580,467</u>	<u>472,594</u>	<u>149,759</u>	<u>1,488,976</u>	<u>1,264,823</u>	<u>1,873</u>	<u>6,958,492</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)**

Aging analysis of financial assets past-due but not impaired:

	2012	2011
	RM'000	RM'000
Insurance receivables		
31 to 60 days	997	1,082
61 to 90 days	1,285	774
91 to 180 days	1,607	17
	<u>3,889</u>	<u>1,873</u>
	<u><u>3,889</u></u>	<u><u>1,873</u></u>

Impaired financial assets

At 30 June 2012, there are impaired insurance receivables of RM796,000 (2011: RM492,000) and impaired AFS financial assets of RM49,278,000 (2011: RM34,830,000). Impairment of insurance receivables is performed based on individual assessment of receivables where the contractual payments are in arrears for more than 90 days. No collateral is held as security for any past due or impaired assets. The AFS financial assets that are subject to impairment are rigorously assessed as explained under Note 2(h)(i) to the financial statements. The Company records impairment allowance for insurance receivables and AFS financial assets in separate allowance accounts.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Impaired financial assets (cont'd)**

A reconciliation of the allowance for impairment lossess for insurance receivables and AFS financial assets is as follows:

	Insurance receivables		AFS financial assets		Total	
	2012	2011	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July	492	492	34,830	16,812	35,322	17,304
Charge for the financial year	304	-	15,019	20,735	15,323	20,735
Realised for the financial year	-	-	(571)	(2,717)	(571)	(2,717)
At 30 June	796	492	49,278	34,830	50,074	35,322

(b) Liquidity risk

Liquidity risk arises due to inability of the Company to meet its financial obligations as and when they fall due. The Company manages liquidity risk via short term cash flow projection to determine net cash flow required. In addition, the Company's investible funds are substantially placed in fixed and call deposits and other money market instruments. Should there be any abnormal and unexpected cash out flow required, the Company still able to meet its obligation in short period via the liquidation of bonds holdings.

The Company endeavors to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial assets**

The table below analyses the carrying amount of financial assets (excluding financial assets classified as non-current assets held-for-sale) based on the remaining contractual maturities:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
HTM financial assets	422,389	20,470	25,936	375,983	-	422,389
AFS financial assets	5,046,319	676,761	1,710,964	1,624,702	1,033,892	5,046,319
FVTPL financial assets	539,814	20,920	67,344	70,006	381,544	539,814
Loan and receivables	823,677	823,677	-	-	-	823,677
Derivative assets	36	36	-	-	-	36
Reinsurance assets	28,018	28,018	-	-	-	28,018
Insurance receivables	61,550	61,550	-	-	-	61,550
Other receivables	15,905	15,905	-	-	-	15,905
Cash and cash equivalents	970,781	970,781	-	-	-	970,781
Total financial assets	7,908,489	2,618,118	1,804,244	2,070,691	1,415,436	7,908,489

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial assets (cont'd)**

The table below analyses the carrying amount of financial assets (excluding financial assets classified as non-current assets held-for-sale) based on the remaining contractual maturities: (cont'd)

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2011						
HTM financial assets	208,138	12,164	118,692	77,282	-	208,138
AFS financial assets	4,444,259	470,422	1,938,529	1,146,984	888,324	4,444,259
FVTPL financial assets	469,982	10,030	61,694	21,843	376,415	469,982
Loan and receivables	715,836	692,795	-	23,041	-	715,836
Derivative assets	303	303	-	-	-	303
Reinsurance assets	25,714	25,714	-	-	-	25,714
Insurance receivables	43,837	43,837	-	-	-	43,837
Other receivables	27,043	27,043	-	-	-	27,043
Cash and cash equivalents	1,023,380	1,023,380	-	-	-	1,023,380
Total financial assets	6,958,492	2,305,688	2,118,915	1,269,150	1,264,739	6,958,492

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial liabilities**

The table below shows the contractual undiscounted cash flows payable for financial liabilities (excluding financial liabilities classified as liabilities directly associated with assets classified as held-for-sale) of the Company based on the remaining contractual maturities:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2012					
Insurance contract liabilities:*					
-With DPF	4,603,044	67,037	102,409	12,893,922	13,063,368
-Without DPF	1,827,657	1,311,187	81,251	1,327,977	2,720,415
Insurance payables	48,887	48,887	-	-	48,887
Other payables	886,197	886,197	-	-	886,197
Dividend payables	54,000	54,000	-	-	54,000
Derivative liabilities	2,419	2,419	-	-	2,419
Total financial liabilities	<u>7,422,204</u>	<u>2,369,727</u>	<u>183,660</u>	<u>14,221,899</u>	<u>16,775,286</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial liabilities (cont'd)**

The table below shows the contractual undiscounted cash flows payable for financial liabilities (excluding financial liabilities classified as liabilities directly associated with assets classified as held-for-sale) of the Company based on the remaining contractual maturities: (cont'd)

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2011					
Insurance contract liabilities:*					
-With DPF	3,869,465	121,910	103,361	11,257,033	11,482,304
-Without DPF	1,728,419	1,203,390	165,034	1,142,042	2,510,466
Insurance payables	41,867	41,867	-	-	41,867
Other payables	735,844	735,844	-	-	735,844
Dividend payables	54,000	54,000	-	-	54,000
Derivative liabilities	1,780	1,780	-	-	1,780
Total financial liabilities	<u>6,431,375</u>	<u>2,158,791</u>	<u>268,395</u>	<u>12,399,075</u>	<u>14,826,261</u>

* Excluding AFS reserve.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial liabilities (cont'd)

For insurance contract liabilities, maturity profiles are estimated based on projected net cash outflows from the recognised insurance liabilities.

Investment-linked liabilities are repayable or transferable on demand and are included in the "up to 1 year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

(c) Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The change in market price maybe caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The segmentation of product liabilities facilitates an effective market risk analysis. The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, sector mix, currency mix, interest rate risk exposure and liquidity targets.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**33 . FINANCIAL RISKS (CONT'D)****(c) Market risk (cont'd)****(i) Currency risk (cont'd)**

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

2012	Financial assets RM '000	Insurance liabilities RM '000	Total RM '000
Singaporean dollar	81,599	-	81,599
US dollar	337,656	-	337,656
Australian dollar	93,504	(6,453)	87,051
Hong Kong dollar	136,743	-	136,743
Great Britain pound	20,976	-	20,976
Japenses yen	50,257	-	50,257
Korean won	4,939	-	4,939
Thailand baht	3,187	-	3,187
Total	<u>728,861</u>	<u>(6,453)</u>	<u>722,408</u>

2011	Financial assets RM '000	Insurance liabilities RM '000	Total RM '000
Singaporean dollar	135,866	-	135,866
US dollar	146,122	-	146,122
Australian dollar	190,269	(19,981)	170,288
Euro	64,673	-	64,673
Hong Kong dollar	97,747	-	97,747
Japenses yen	53,922	-	53,922
Korean won	10,447	-	10,447
Total	<u>699,046</u>	<u>(19,981)</u>	<u>679,065</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(i) Currency risk (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in currency rates for all currencies other than the functional currency stated above, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before tax	Impact on equity *
	RM '000	RM '000
2012		
Change in currency rates:		
+ 5%	(2,081)	(1,634)
- 5%	2,081	1,634
2011		
Change in currency rates:		
+ 5%	(1,808)	(1,569)
- 5%	1,808	1,569

* Impact on equity reflects adjustments for tax, when applicable.

(ii) Interest rate risk

Interest rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises due to differences in pricing or tenure of investments and liabilities. For the insurance business, interest rate risk is managed by limiting the interest rate guarantees that are embedded in the insurance plans. The interest rate risk is also managed through setting the appropriate asset allocation reflecting the liability profile and the availability of the suitable instrument in the investment market. The nature of the participating fund gives the Company the flexibility to adjust the policyholders' bonus or dividends.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(ii) Interest rate risk (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on equity *
	RM '000
2012	
Change in interest rate:	
+ 100 basis point	(2,574)
- 100 basis point	2,701
2011	
Change in interest rate:	
+ 100 basis point	(1,116)
- 100 basis point	1,151

* Impact on equity reflects adjustments for tax, when applicable.

The above impact to the Company's equity arose from the investments in fixed income securities which are classified as available-for-sale financial assets and hence does not have any impact on profit before tax. In the analysis above, the impact arising from changes in interest rate risk to fixed income securities and liabilities of the Life fund are retained in the insurance contract liabilities and hence does not have any impact to profit before tax and equity.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(iii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls. In addition, the Investment Committee at its monthly meeting discusses the economic and market outlook, reviews transactions and deliberates on equity allocation. The nature of the participating fund gives the flexibility to adjust the policyholders' bonus or dividends.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on equity *
	RM '000
2012	
Change in equity market price:	
+ 20%	41,504
- 20%	(41,504)
2011	
Change in equity market price:	
+ 20%	20,532
- 20%	(20,532)

* Impact on equity reflects adjustments for tax, when applicable.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(iii) Price risk (cont'd)

The above impact to the Company's equity arose from the investments in equity securities which are classified as available-for-sale financial assets and hence does not have any impact on profit before tax. In the analysis above, the impact arising from changes in prices of equity securities of the Life fund is retained in the insurance contract liabilities and hence does not have any impact on profit before tax and equity.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

(iv) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

34 . FAIR VALUE HIERARCHY

The table below analyses those financial instruments carried at fair value by their valuation method.

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Other investments			Derivatives
	AFS RM'000	FVTPL RM'000	Total RM'000	RM'000
2012				
Level 1	914,976	369,038	1,284,014	-
Level 2	4,129,196	170,776	4,299,972	36
Level 3	2,147	-	2,147	-
	<u>5,046,319</u>	<u>539,814</u>	<u>5,586,133</u>	<u>36</u>
2011				
Level 1	874,847	363,245	1,238,092	-
Level 2	3,567,265	106,737	3,674,002	303
Level 3	2,147	-	2,147	-
	<u>4,444,259</u>	<u>469,982</u>	<u>4,914,241</u>	<u>303</u>

There are no significant transfer between Level 1 and Level 2 of the fair value hierarchy during the current financial year. There is also no movement in Level 3 of the fair value hierarchy during the current financial year.

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS**

The Company's activities are organised by funds and segregated into the Life Fund and Shareholders' Fund ("SHF") in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996. The Company's statement of financial position and income statement have been further analysed by funds which include the Life Fund, Investment-linked Fund ("ILF") and the SHF. The Life insurance business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Unit-linked products.

STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2012

	Shareholders' Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	2,559	89,918	-	-	92,477
Intangible assets	-	3,881	-	-	3,881
Investment properties	-	231,680	-	-	231,680
Other investments	422,321	5,870,064	539,814	-	6,832,199
- HTM financial assets	-	422,389	-	-	422,389
- AFS financial assets	422,321	4,623,998	-	-	5,046,319
- FVTPL financial assets	-	-	539,814	-	539,814
- Loans and receivables	-	823,677	-	-	823,677
Derivative assets	-	17	19	-	36
Tax recoverable	1,728	-	-	-	1,728
Reinsurance assets	-	28,018	-	-	28,018
Insurance receivables	-	61,550	-	-	61,550
Other receivables	66,527	11,738	3,298	(65,658)	15,905
Non-current assets held-for-sale	55	-	-	-	55
Cash and cash equivalents	144,485	706,060	120,236	-	970,781
Total assets	637,675	7,002,926	663,367	(65,658)	8,238,310

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2012 (CONT'D)**

	Shareholders' Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	373,431	-	-	-	373,431
Total equity	573,431	-	-	-	573,431
Insurance contract liabilities	-	5,984,619	657,265	-	6,641,884
Deferred tax liabilities	7,905	17,483	3,138	-	28,526
Tax payables	-	2,582	384	-	2,966
Insurance payables	-	48,887	-	-	48,887
Other payables	2,218	947,229	2,408	(65,658)	886,197
Dividend payable	54,000	-	-	-	54,000
Derivative liabilities	121	2,126	172	-	2,419
Total policyholders' fund and liabilities	64,244	7,002,926	663,367	(65,658)	7,664,879
Total equity, policyholders' fund and liabilities	637,675	7,002,926	663,367	(65,658)	8,238,310

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2011**

	Shareholders' Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	2,608	91,718	-	-	94,326
Intangible assets	-	1,968	-	-	1,968
Investment properties	-	231,680	-	-	231,680
Other investments	251,983	5,116,250	469,982	-	5,838,215
- HTM financial assets	-	208,138	-	-	208,138
- AFS financial assets	251,983	4,192,276	-	-	4,444,259
- FVTPL financial assets	-	-	469,982	-	469,982
- Loans and receivables	-	715,836	-	-	715,836
Derivative assets	25	274	4	-	303
Reinsurance assets	-	25,714	-	-	25,714
Insurance receivables	-	43,837	-	-	43,837
Other receivables	69,768	20,876	2,524	(66,125)	27,043
Non-current assets held-for-sale	55	-	-	-	55
Cash and cash equivalents	307,223	610,614	105,543	-	1,023,380
Total assets	631,662	6,142,931	578,053	(66,125)	7,286,521

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2011 (CONT'D)**

	Shareholders' Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	357,119	-	-	-	357,119
Total equity	557,119	-	-	-	557,119
Insurance contract liabilities	-	5,267,947	570,987	-	5,838,934
Deferred tax liabilities	9,879	23,926	4,824	-	38,629
Tax payables	9,546	7,499	1,303	-	18,348
Insurance payables	-	41,867	-	-	41,867
Other payables	1,107	799,946	916	(66,125)	735,844
Dividend payable	54,000	-	-	-	54,000
Derivative liabilities	11	1,746	23	-	1,780
Total policyholders' fund and liabilities	74,543	6,142,931	578,053	(66,125)	6,729,402
Total equity, policyholders' fund and liabilities	631,662	6,142,931	578,053	(66,125)	7,286,521

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

	Continuing operations			Total
	Shareholders' Fund	Life Fund	Investment- linked Fund	
	RM'000	RM'000	RM'000	RM'000
Operating revenue	36,322	1,867,371	151,432	2,055,125
Gross earned premiums	-	1,522,594	130,436	1,653,030
Premiums ceded to reinsurers	-	(55,408)	-	(55,408)
Net earned premiums	-	1,467,186	130,436	1,597,622
Investment income	36,322	344,777	20,996	402,095
Realised gains	(10,303)	26,420	7,561	23,678
Fair value gains/(losses)	1,278	2,484	(21,043)	(17,281)
Fees and commission income	-	4,417	-	4,417
Other operating income-net	210	6,243	-	6,453
Other revenue	27,507	384,341	7,514	419,362
Gross benefits and claims paid	-	(681,420)	(44,943)	(726,363)
Claims ceded to reinsurers	-	45,774	-	45,774
Gross change to contract liabilities	-	(714,355)	(86,278)	(800,633)
Change in contract liabilities to reinsurers	-	616	-	616
Net benefits and claims	-	(1,349,385)	(131,221)	(1,480,606)
Fees and commission expense	(354)	(309,053)	(6,930)	(316,337)
Management expenses	(1,838)	(104,583)	-	(106,421)
Other expenses	(2,192)	(413,636)	(6,930)	(422,758)
Profit from continuing operations	25,315	88,506	(201)	113,620
Inter-fund transfer:-				
From Life Fund to				
Shareholders' Fund	66,000	(66,000)	-	-
Profit before taxation	91,315	22,506	(201)	113,620
Taxation	(14,109)	(22,506)	201	(36,414)
Profit for the financial year	77,206	-	-	77,206

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

	Continuing operations			Discontinued	Total
	Shareholders'	Life Fund	Investment-linked Fund	General	
	Fund	Fund	Fund	Fund	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	16,343	1,500,158	107,343	82,111	1,705,955
Gross earned premiums	-	1,219,035	86,970	79,541	1,385,546
Premiums ceded to reinsurers	-	(62,541)	-	(26,119)	(88,660)
Net earned premiums	-	1,156,494	86,970	53,422	1,296,886
Investment income	16,343	281,123	20,373	2,570	320,409
Realised gains	3,147	40,322	25,937	564	69,970
Fair value (losses)/gains	(965)	15,241	42,230	(2,060)	54,446
Fees and commission income	-	3,474	-	5,818	9,292
Other operating income-net	1,020	4,500	-	407	5,927
Other revenue	19,545	344,660	88,540	7,299	460,044
Gross benefits and claims paid	-	(548,852)	(63,249)	(42,748)	(654,849)
Claims ceded to reinsurers	-	49,984	-	12,578	62,562
Gross change to contract liabilities	-	(411,100)	(99,462)	13,323	(497,239)
Change in contract liabilities to reinsurers	-	(407)	-	(13,949)	(14,356)
Net benefits and claims	-	(910,375)	(162,711)	(30,796)	(1,103,882)

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS**35 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011 (CONT'D)**

	Continuing operations			Discontinued	Total
	Shareholders' Fund	Life Fund	Investment-linked Fund	General Fund	
	RM'000	RM'000	RM'000	RM'000	RM'000
Fees and commission expense	(248)	(238,028)	(6,515)	(12,586)	(257,377)
Management expenses	(3,224)	(88,048)	-	(15,646)	(106,918)
Other expenses	(3,472)	(326,076)	(6,515)	(28,232)	(364,295)
Profit from continuing operations/discontinued operations	16,073	264,703	6,284	1,693	288,753
Gain on disposal of general insurance, net	-	-	-	629,839	629,839
Inter-fund transfer:- From Life Fund to Shareholders' Fund	241,000	(241,000)	-	-	-
Profit before taxation	257,073	23,703	6,284	631,532	918,592
Taxation	(43,579)	(23,703)	(6,284)	(707)	(74,273)
Profit for the financial year	213,494	-	-	630,825	844,319

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(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 29 to 135 are drawn up in compliance with the provisions of the Companies Act, 1965 and Financial Reporting Standards ("FRS"), the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, as modified by the Guidelines On Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") pursuant to the Insurance Act, 1996 so as to give a true and fair view of the state of affairs of the Company as at 30 June 2012 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

Choong Yee How

Loh Guat Lan

Petaling Jaya
27 August 2012

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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

I, Tang Loon Khoon, 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 29 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 Tang Loon Khoon)
at Petaling Jaya this 27 August 2012)

Before me

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong Assurance Berhad, which comprise the statement of financial position as at 30 June 2012, and the statements of comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Note 1 to 35 to the financial statements.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements that give a true and fair view in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and the provisions of the Companies Act, 1965, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

REPORT ON THE FINANCIAL STATEMENTS (CONT'D)

Auditors' Responsibility (cont'd)

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

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 as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 30 June 2012 and of its financial performance and cash flows 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. 2656/05/14 (J))
Chartered Accountant

Kuala Lumpur
27 August 2012