

HONG LEONG ASSURANCE BERHAD (94613-X)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD FROM
1 JULY 2010 TO 31 DECEMBER 2010

HONG LEONG ASSURANCE BERHAD (94613-X)
(Incorporated in Malaysia)

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HONG LEONG ASSURANCE BERHAD (94613-X)
(Incorporated in Malaysia)

Unaudited Condensed Statement of Financial Position as at 31 December 2010

	Note	Shareholders' Fund RM'000	Life Fund RM'000	Total RM'000
Assets				
Property, plant and equipment		2,188	89,878	92,066
Prepaid lease payments		445	1,527	1,972
Intangible assets		-	2,808	2,808
Investment properties		-	231,680	231,680
Financial assets held-for-trading	2 (a)	-	434,999	434,999
Financial assets available-for-sale	2 (b)	172,265	3,822,121	3,994,386
Financial assets held-to-maturity	2 (c)	-	218,035	218,035
Fixed and call deposits		365,983	525,578	891,561
Derivative assets		149	42	191
Loans		-	667,498	667,498
Non-current assets held-for-sale		60	-	60
Reinsurance assets	3	-	23,603	23,603
Insurance receivables		-	34,412	34,412
Other receivables		21,821	87,344	109,165
Cash and bank balances		91	35,518	35,609
Total assets		563,002	6,175,043	6,738,045
Equity, policyholders' fund and liabilities				
Share capital		200,000	-	200,000
Retained earnings		312,102	-	312,102
Other reserves		7,852	-	7,852
Total equity		519,954	-	519,954
Insurance contract liabilities	4	-	5,450,008	5,450,008
Insurance payables		-	632,623	632,623
Other payables		2,470	50,475	52,945
Tax payable		38,916	11,332	50,248
Deferred tax liabilities		1,662	30,605	32,267
Total policyholders' fund and liabilities		43,048	6,175,043	6,218,091
Total equity, policyholders' fund and liabilities		563,002	6,175,043	6,738,045

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

HONG LEONG ASSURANCE BERHAD (94613-X)

(Incorporated in Malaysia)

Unaudited Condensed Income Statement for the 6 months period ended 31 December 2010

	Continuing operations		Discontinued operations	Total
	Shareholders' Fund	Life Fund	General Fund	
	RM'000	RM'000	RM'000	RM'000
Operating revenue	<u>7,683</u>	<u>760,658</u>	<u>82,112</u>	<u>850,453</u>
Gross earned premiums	-	611,927	79,542	691,469
Premiums ceded to reinsurers	-	(33,037)	(26,120)	(59,157)
Net earned premiums	-	<u>578,890</u>	<u>53,422</u>	<u>632,312</u>
Investment income	7,683	148,731	2,570	158,984
Realised gains	1,009	31,651	421	33,081
Fair value gains	-	39,062	-	39,062
Fee and commission income	-	169	5,818	5,987
Other operating income/(expenses)	629,180	1,450	(2,334)	628,296
Other revenue	<u>637,872</u>	<u>221,063</u>	<u>6,475</u>	<u>865,410</u>
Gross benefits and claims paid	-	(272,871)	(42,748)	(315,619)
Claims ceded to reinsurers	-	17,088	12,578	29,666
Gross change to contract liabilities	-	(201,160)	13,323	(187,837)
Change in contract liabilities to reinsurers	-	(12)	(13,949)	(13,961)
Net claims	-	<u>(456,955)</u>	<u>(30,796)</u>	<u>(487,751)</u>
Fee and commission expense	(102)	(112,146)	(12,586)	(124,834)
Management expenses	(1,746)	(36,744)	(14,821)	(53,311)
Other expenses	<u>(1,848)</u>	<u>(148,890)</u>	<u>(27,407)</u>	<u>(178,145)</u>
Profit from operations	<u>636,024</u>	<u>194,108</u>	<u>1,694</u>	<u>831,826</u>
Transfer from Revenue Accounts	<u>175,000</u>	<u>(175,000)</u>	<u>-</u>	<u>-</u>
Profit/surplus before tax	<u>811,024</u>	<u>19,108</u>	<u>1,694</u>	<u>831,826</u>
Taxation	(34,800)	(19,108)	(708)	(54,616)
Net profit for the period	<u>776,224</u>	<u>-</u>	<u>986</u>	<u>777,210</u>
Earnings per share (sen)				<u>388.61</u>

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

HONG LEONG ASSURANCE BERHAD (94613-X)
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**Unaudited Condensed Statement of Comprehensive Income for the 6 months period ended
31 December 2010**

	Continuing operations	Discontinued operations	
	Shareholders' Fund	General Fund	Total
	RM'000	RM'000	RM'000
Net profit for the period	<u>776,224</u>	<u>986</u>	<u>777,210</u>
Other comprehensive income/(loss)			
Change in available-for-sale fair value reserves:			
Net gain/(loss) arising during the period	9,889	(3,498)	6,391
Net realised gain transferred to Income Statement	<u>(1,009)</u>	<u>(421)</u>	<u>(1,430)</u>
	8,880	(3,919)	4,961
Tax effects thereon	<u>(2,220)</u>	980	<u>(1,240)</u>
	6,660	(2,939)	3,721
Total comprehensive income for the period	<u>782,884</u>	<u>(1,953)</u>	<u>780,931</u>

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

HONG LEONG ASSURANCE BERHAD (94613-X)
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**Unaudited Condensed Statement of Changes in Equity for the 6 months period ended
31 December 2010**

	Issued and fully paid ordinary shares of RM1 each		Non- distributable	Distributable	Total
	No. of shares '000	Share capital RM'000	Fair value reserve RM'000	Retained earnings RM'000	
At 30 June 2010	200,000	200,000	4,131	296,958	501,089
- changes in accounting policies	-	-	-	1,580	1,580
- as restated 1 July 2010	200,000	200,000	4,131	298,538	502,669
Total comprehensive income for the period	-	-	3,721	777,210	780,931
Dividend paid during the period	-	-	-	(763,646)	(763,646)
At 31 December 2010	200,000	200,000	7,852	312,102	519,954

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

HONG LEONG ASSURANCE BERHAD (94613-X)
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**Unaudited Condensed Cash Flow Statement for the 6 months period ended
31 December 2010**

	RM'000
Cash flows from:	
Net cash generated from operating activities	738,500
Net cash generated from investing activities	25,564
Net cash used in financing activities	<u>(763,646)</u>
Net increase in cash and cash equivalents	418
Cash and cash equivalents at the beginning of the financial year	<u>35,191</u>
Cash and cash equivalents at the end of the financial period	<u><u>35,609</u></u>

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

HONG LEONG ASSURANCE BERHAD (94613-X)
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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

The interim financial statements of Hong Leong Assurance Berhad ("the Company") is unaudited and have been prepared in accordance with guideline/circular issued by Bank Negara Malaysia ("BNM") and should be read in conjunction with the Company's audited financial statements for the financial year ended 30 June 2010.

(b) Changes in accounting policies

The accounting policies and presentation adopted by the Company for the interim financial statements are consistent with those adopted in the Company audited financial statements for the financial year ended 30 June 2010, except for the adoption of the following:

- (i) FRS 3: Business Combination
- (ii) FRS 4: Insurance Contracts
- (iii) FRS 7: Financial Instruments - Disclosure
- (iv) FRS 101: Presentation of Financial Statements (revised 2009)
- (v) FRS 127: Consolidated and Separate Financial Statements
- (vi) FRS 139: Financial Instruments - Recognition and Measurement
- (vii) IC Interpretation 9: Reassessment of Embedded Derivatives
- (viii) IC Interpretation 10: Interim Financial Reporting and Impairment
- (ix) IC Interpretation 13: Customer Loyalty Programmes
- (x) Amendments to FRS 1 First-time Adoption of Financial Reporting Standards
- (xi) Amendments to FRS 2: Share-based Payment
- (xii) Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- (xiii) Amendments to FRS 132: Financial Instruments: Presentation (Classification of Rights Issues)
- (xiv) Amendments to FRS 138: Intangible Assets
- (xv) Amendments to FRSs contained in the document entitled 'Improvements to FRSs (2009)'

HONG LEONG ASSURANCE BERHAD (94613-X)
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NOTES TO THE FINANCIAL STATEMENTS

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

(b) Changes in accounting policies (cont'd)

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Company require retrospective application other than FRS 139, which is applied prospectively.

Other than FRS 4, the other standards, amendments to published standards and interpretations do not have a material impact on the Company's accounting policies.

The application of FRS 4 has resulted in a change in the accounting policy for allowance for doubtful debts.

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

Under FRS 4, the Company reduces the carrying amount of the insurance receivable balance and recognises an impairment loss in the statement of income and expenditure if there is objective evidence that the insurance receivable is impaired.

As a result of this change, the Company recognised a release in allowances for doubtful debts of approximately RM1,580,000 to the opening retained earnings of the Shareholders' Fund.

HONG LEONG ASSURANCE BERHAD (94613-X)
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NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL ASSETS

(a) Financial assets held-for-trading

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

	Shareholders' Fund RM'000	Life Fund RM'000	Total RM'000
At fair value:			
Malaysian Government Securities and other government guaranteed low risk assets	-	2,020	2,020
Quoted:			
Equity securities in corporations	-	329,932	329,932
Unit trusts	-	6,771	6,771
	-	<u>336,703</u>	<u>336,703</u>
Unquoted:			
Corporate debt securities	-	80,001	80,001
Equity securities of corporation	-	-	-
Unit trusts	-	11,818	11,818
Structured investments	-	4,457	4,457
	-	<u>96,276</u>	<u>96,276</u>
Total financial assets held-for-trading	<u>-</u>	<u>434,999</u>	<u>434,999</u>

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NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL ASSETS (CONT'D)

(b) Financial assets available-for-sale

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

	Shareholders' Fund RM'000	Life Fund RM'000	Total RM'000
At fair value:			
Malaysian Government Securities and other government guaranteed low risk assets	-	390,988	390,988
Quoted:			
Equity securities in corporations	76,922	521,199	598,121
Unit trusts	4,272	82,975	87,247
	<u>81,194</u>	<u>604,174</u>	<u>685,368</u>
Unquoted:			
Corporate debt securities	80,063	2,628,063	2,708,126
Equity securities of corporation	-	2,147	2,147
Unit trusts	11,008	-	11,008
Structured investments	-	196,749	196,749
	<u>91,071</u>	<u>2,826,959</u>	<u>2,918,030</u>
Total financial assets available-for-sale	<u><u>172,265</u></u>	<u><u>3,822,121</u></u>	<u><u>3,994,386</u></u>

HONG LEONG ASSURANCE BERHAD (94613-X)
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NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL ASSETS (CONT'D)

(c) Financial assets held-to-maturity

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

	Shareholders' Fund RM'000	Life Fund RM'000	Total RM'000
At amortised cost:			
Unquoted:			
Corporate debt securities	-	218,035	218,035
Total financial assets held-to-maturity	-	218,035	218,035

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

Maturing within 12 months	13,124	302,628	315,752
Maturing after 12 months	66,939	3,217,686	3,284,625
	80,063	3,520,314	3,600,377

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NOTES TO THE FINANCIAL STATEMENTS

3. REINSURANCE ASSETS

	RM'000
Reinsurance of insurance contracts	23,603
	<u>23,603</u>

4. INSURANCE CONTRACT LIABILITIES

The life insurance contract liabilities and its movements are further analysed as follows:

	RM'000
Actuarial liabilities	4,007,587
Unallocated surplus	674,183
Available-for-sale fair value reserves	219,940
Net asset value attributable to unitholders	548,298
	<u>5,450,008</u>
At 1 July 2010	5,151,734
Change in life insurance fund contract liabilities:	
Due to change in discount rate	1,954
Due to movement during the period	251,147
Change in net asset value attributable to unitholders	76,773
Transfer from Life Insurance Revenue Statement	46,286
Transfer to Income Statement	(175,000)
Change in available-for-sale fair value reserves	105,559
Deferred tax effects:	
Change in available-for-sale fair value reserves	(8,445)
At 31 December 2010	<u>5,450,008</u>

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NOTES TO THE FINANCIAL STATEMENTS

5. TOTAL CAPITAL AVAILABLE

The capital structure of the Company as at 31 December 2010, as prescribed under the Framework is provided below:

	RM'000
Eligible tier 1 capital	
Share capital (paid-up)	200,000
Retained earnings	309,935
Valuation surplus of non-participating life insurance fund maintained in the insurance fund	432,707
Valuation surplus of participating fund maintained in the insurance fund	241,476
50% of future bonuses	1,056,872
	<u>2,240,990</u>
 Tier 2 capital	
Reserves	227,791
	<u>227,791</u>
 Amounts deducted from capital	<u>(2,659)</u>
Total capital available	<u><u>2,466,122</u></u>

6. CAPITAL COMMITMENTS

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

	RM'000
Authorised but not contracted for:	
Property and equipment	3,471
Intangible assets	1,264
Total capital commitments	<u><u>4,735</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

7. SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

On 18 June 2010, HLA Holdings Sdn Bhd ("HLAH"), the holding company of Hong Leong Assurance Berhad ("HLA"), and HLA, had entered into various agreements with Mitsui Sumitomo Insurance Company, Limited ("MSIJ") and its subsidiary, MSIG Insurance (Malaysia) Bhd ("MSIM"), in relation to the insurance businesses of HLA and MSIM ("Proposed Strategic Partnership").

The Proposed Strategic Partnership involved the following:

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

The Proposed Non-Life Business Merger and Proposed Disposal were completed on 1 October 2010, and on even date, HLAH transferred 30% of its equity interest in HLA to MSIJ. ("Transfer of HLA Shares"). At the same time, HLA transferred its 30% equity interest in MSIM to HLAH. ("Transfer of MSIM Shares"). With the completion of the Transfer of HLA Shares and the Transfer of MSIM Shares, HLAH and MSIJ hold 70% and 30% equity interest in HLA respectively and HLAH hold 30% of the equity interest in MSIM.