

COMPANY NUMBER (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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HONG LEONG ASSURANCE BERHAD

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(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 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the underwriting of life insurance business and the underwriting of all classes of general insurance business up to 30 September 2010. On 1 October 2010, the Company transferred its general business assets, liabilities and business as a going concern to MSIG Insurance (Malaysia) Bhd ("MSIM") as disclosed in Note 34 to the financial statements. Other than as stated above, there have been no significant changes in the nature of the principal activities during the financial year.

FINANCIAL RESULTS

Profit for the financial year	RM'000 845,480
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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 2011:</u>	
Dividend paid on 22 September 2010:	
- Tax-exempt interim dividend of 0.04 sen per share	87
- Single-tier interim dividend in-specie of 72.46 sen per share	144,913
	<u>145,000</u>
Dividend paid on 1 October 2010:	
- Single-tier interim dividend in-specie of 309.32 sen per share	618,646
Dividend paid on 1 July 2011:	
- Gross interim taxable dividend of 36 sen per share, less income tax at 25%	54,000
	<u>817,646</u>

The Directors do not recommend any final dividend to be paid for the financial year under review.

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DIRECTORS' REPORT (CONT'D)

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.

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 provision for doubtful debts and satisfied themselves that all known bad debts had been written off and adequate provision 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 provision 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 be realised in the ordinary course of business, their value 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.

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DIRECTORS' REPORT (CONT'D)

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

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, other than as disclosed in Note 34 to the financial statements.

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DIRECTORS' REPORT (CONT'D)

ITEMS OF AN UNUSUAL NATURE (CONT'D)

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

CORPORATE GOVERNANCE

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

A. Board Responsibilities and Oversight

The Board of Directors ("Board")

The Board's responsibilities include:-

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

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DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board Responsibilities and Oversight (cont'd)

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

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

During the financial year ended 30 June 2011, 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
Mr Tan Keok Yin	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 (Appointed on 1 October 2010)	5/5
YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Appointed on 15 March 2011)	2/2
YBhg Datuk Dr Hussein bin Awang (Retired on 26 October 2010)	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.

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DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board Responsibilities and Oversight (cont'd)

Nominating Committee

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

YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow

(Chairman, Independent Non-Executive Director)

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

Mr Tan Keok Yin (Independent Non-Executive Director)

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

(Independent Non-Executive Director)

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

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

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

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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 2011, four (4) Nominating Committee Meetings were held and the attendance of the Members was as follows:

Members	Attendance
YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow	2/2
YBhg Tan Sri Quek Leng Chan	4/4
Mr Tan Keok Yin	4/4
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong	4/4
Mr Choong Yee How	4/4

B. Directors' Remuneration

Remuneration Committee

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

YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong
(Chairman, Independent Non-Executive Director)
YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director)
Mr Tan Keok Yin (Independent Non-Executive Director)

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

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

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DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Directors' Remuneration (cont'd)

Remuneration Committee (cont'd)

During the financial year ended 30 June 2011, 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.

C. Accountability and Audit

Board Audit and Risk Management Committee ("BARMC")

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

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

Mr Tan Keok Yin (Independent Non-Executive Director)

YBhg Datuk Dr Hussein bin Awang (Retired on 26 October 2010)

YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Appointed on 15 March 2011)

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DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

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

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

- (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.
- (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.

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DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

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

During the financial year ended 30 June 2011, seven (7) BARMC meetings were held and the attendance of the members was as follows:-

Members	Attendance
YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong	7/7
Mr Tan Keok Yin	7/7
YBhg Datuk Dr Hussein bin Awang (Retired on 26 October 2010)	3/3
YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Appointed on 15 March 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.

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.

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DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Management Accountability

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

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

Corporate Independence

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

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DIRECTORS' REPORT (CONT'D)

DIRECTORATE

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

YBhg Tan Sri Quek Leng Chan

Mr Tan Keok Yin

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

Mr Choong Yee How

Mr Quek Kon Sean

Ms Loh Guat Lan

Mr Alan John Wilson (Appointed on 1 October 2010)

YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow (Appointed on 15 March 2011)

YBhg Datuk Dr Hussein bin Awang (Retired on 26 October 2010)

In accordance with Article 90 of the Company's Articles of Association, YBhg Dato' Gan Nyap Liou @ Gan Nyap Liow retires at the forthcoming Annual General Meeting and being eligible, offers himself for election.

In accordance with Article 109 of the Company's Articles of Association, YBhg Dato' Chua Chuan Lim @ Dato' Chua Chuan Teong and Mr Choong Yee How retire by rotation from the Board and, being eligible, offer themselves for re-election.

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DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS

According to the Registrar 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/options/convertible bonds in the Company and/or 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

	<u>Nominal</u> <u>value</u> <u>per share</u> <u>RM</u>	<u>As at</u> <u>01/07/2010</u>	<u>Acquired</u>	<u>Sold</u>	<u>As At</u> <u>30/06/2011</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	∞	10,000,000	3,333,333	≈	13,333,333
GuocoLand (Malaysia) Berhad	0.50	19,506,780	-	-	19,506,780
GuocoLeisure Limited	USD0.20	735,000	-	-	735,000

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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

	<u>Nominal</u> value <u>per share</u> RM	<u>As at</u> <u>01/07/2010</u>	<u>Acquired</u>	<u>Sold</u>	<u>As At</u> <u>30/06/2011</u>
Interest of					
Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	1.00	-	960,000 ¥	-	960,000
	1.00	6,800,000 *	-	(960,000) *¥	5,840,000 *
Interest of					
Mr Quek Kon Sean in:					
Hong Leong Financial Group Berhad	1.00	-	300,000 ¥	-	300,000
	1.00	2,125,000 *	-	(300,000) *¥	1,825,000 *

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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 01/07/2010	Acquired	Sold	As At 30/06/2011
Interests of					
YBhg Dato' Chua Chuan Lim @					
Dato' Chua Chuan Teong in:					
Hong Leong Industries Berhad	0.50	8,000	4,000	(4,000) [®]	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	-	-	30,000
Malaysian Pacific Industries Berhad	0.50	-	3,000 +	-	3,000
Interests of					
Ms Loh Guat Lan in:					
Hong Leong Financial Group Berhad	1.00	500,000 *	-	-	500,000 *

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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>01/07/2010</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/06/2011</u>
Interests of					
YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	13,019,100	50,000	-	13,069,100
Hong Leong Financial Group Berhad	1.00	824,437,300	-	-	824,437,300
Hong Leong Capital Berhad (formerly known as HLG Capital Berhad)	1.00	195,263,227	-	-	195,263,227
Hong Leong Bank Berhad	1.00	967,739,600	603,200	(126,700)	968,216,100
Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad)	1.00	65,000,000	35,000,000	(35,000,000)	65,000,000
Hong Leong Assurance Berhad	1.00	200,000,000	-	(60,000,000)	140,000,000 €
Hong Leong Industries Berhad ("HLI")	0.50	198,269,837 @@	170,935,068 @@♀	(123,068,302) @@®	246,136,603 @@
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	-	-	17,352,872
	1.00	-	6,941 ##	-	6,941 ##
Guocera Tile Industries (Meru) Sdn Bhd	1.00	19,600,000	-	-	19,600,000

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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

	<u>Nominal value per share RM</u>	<u>As at 01/07/2010</u>	<u>Acquired</u>	<u>Sold</u>	<u>As At 30/06/2011</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
Guocera Tile Industries (Labuan) Sdn Bhd	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	◆	-	5,286,500	-	5,286,500
Malaysian Pacific Industries Berhad ("MPI")	0.50	133,601,009	92,301,226 +@@	(23,400)	110,245,457 @@
		-	4,168,925 Ø	(119,802,303) «	
Carter Realty Sdn Bhd	1.00	7	-	-	7
Carsem (M) Sdn Bhd	1.00	84,000,000	-	-	84,000,000
	100.00	22,400 ##	-	-	22,400 ##
Narra Industries Berhad	1.00	38,314,000	-	-	38,314,000

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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 01/07/2010	Acquired	Sold	As At 30/06/2011
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Guoco Group Limited	USD0.50	235,798,529	-	-	235,798,529
GuocoLand Limited	∞	614,133,274 @@	205,111,089 @@♀	-	819,244,363 @@
		8,461,946 *	-	(94,625) *	8,724,438 *▲
First Garden Development Pte Ltd	∞	63,000,000	-	-	63,000,000
Sanctuary Land Pte Ltd	∞	90,000	-	-	90,000
Beijing Minghua Property Development Co., Ltd (In Members' Voluntary Liquidation)	Λ	150,000,000	-	-	150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	#	19,600,000	-	-	19,600,000
Nanjing Xinhaoning Property Development Co., Ltd	#	11,800,800	-	-	11,800,800

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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 01/07/2010	Acquired	Sold	As At 30/06/2011
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Nanjing Xinhaoxuan Property Development Co., Ltd	#	11,800,800	-	-	11,800,800
Nanjing Mahui Property Development Co., Ltd	Λ	271,499,800	-	-	271,499,800
Beijing Cheng Jian Dong Hua Real Estate Development Company Limited	Λ	50,000,000	-	-	50,000,000
Belmeth Pte. Ltd.	∞	-	40,000,000	-	40,000,000 €
Guston Pte. Ltd.	∞	-	8,000,000	-	8,000,000 €
Perfect Eagle Pte. Ltd.	∞	1	23,999,999	-	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
M.C. Packaging Offshore Limited	HKD0.01	812,695	-	-	812,695

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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 01/07/2010	Acquired	Sold	As At 30/06/2011
Interests of					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Guangzhou Lam Soon Food Products Limited	Ω	6,570,000	-	-	6,570,000
GuocoLand (Malaysia) Berhad	0.50	466,555,616	@@	(10,500,000)	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
GuocoLeisure Limited	0.01	68,594,000	##	-	68,594,000 ##
GuocoLeisure Limited	USD0.20	907,809,425	10,692,000	-	918,501,425
Bondway Properties Limited	GBP1.00	1,134,215	∞	(1,134,215)	- ∞ψ
(In Members' Voluntary Liquidation)	GBP1.00	10,332	∞∞	(10,332)	- ∞∞ψ
The Rank Group Plc	GBP13 ^{8/9} p	220,225,312	▶	45,819,079	266,044,391 Δ
Park House Hotel Limited	GBP10p	2,883,440	▶	-	2,883,440

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>01/07/2010</u>	<u>Acquired</u>	<u>Sold</u>	As At <u>30/06/2011</u>
Interests of					
Mr Quek Kon Sean in:					
Hong Leong Industries Berhad	0.50	750,000	375,000 ~	(375,000) ®	750,000
Malaysian Pacific Industries Berhad	0.50	-	281,250 +	-	281,250
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	11,683,479	-	(9,400)	11,674,079
Hong Leong Bank Berhad	1.00	155,000	-	-	155,000
Hong Leong Industries Berhad	0.50	2,297,848	1,149,206	(1,149,018) ®	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

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

- ∞ Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
- ^ Capital contribution in RMB
- # Capital contribution in USD
- Ω Capital contribution in HKD
- ◆ Capital contribution in VND
- @@ Inclusive of shares held pursuant to Section 134(12)(C) of the Companies Act, 1965
- € Became a non-wholly owned subsidiary during the financial year
- ## Redeemable Preference Shares
- ⌘ Ordinary-Voting Shares
- ⌘⌘ Ordinary-Non Voting Shares
- + Entitlement to MPI shares pursuant to capital distribution by HLI to entitled shareholders of HLI via a reduction of the share capital and cancellation of the share premium reserve of HLI
- « Capital distribution by HLI to entitled shareholders of HLI
- Ⓢ Cancellation pursuant to a reduction of share capital
- ∅ Acquired from trusts set up for an approved executive share option scheme
- ♀ Inclusive of shares acquired from rights issue
- ≈ Shares acquired from rights issue
- ▲ After adjustment of the conversion price of the convertible bonds
- Shareholding as at 7 June 2011 as the corporation became a related corporation
- Δ Acceptances received for shares in respect of mandatory cash offer
- ¥ Exercise of share options
- ψ Dissolved during the financial year

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT (CONT'D)

DIRECTORS' BENEFITS

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

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.

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT (CONT'D)

SIGNIFICANT EVENTS DURING THE YEAR

On 18 June 2010, HLA Holdings Sdn Bhd ("HLAH"), the holding company of Hong Leong Assurance Berhad ("HLA"), and HLA, 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 ("Strategic Partnership").

The Strategic Partnership involved the following:

- (i) The 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 which was satisfied via the issuance of such number of new shares representing 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 ("Non-Life Business Merger"); and
- (ii) Upon completion of the Non-Life Business Merger, HLAH disposed 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 ("Disposal").

The Non-Life Business Merger and Disposal were completed on 1 October 2010, and on the same 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 holds 30% of the equity interest in MSIM.

ULTIMATE 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 incorporated in Malaysia.

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT (CONT'D)

AUDITORS

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

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

.....
Choong Yee How

.....
Loh Guat Lan

Petaling Jaya
7 September 2011

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

		30.06.2011	30.06.2010	01.07.2009
	Note	RM'000	Restated RM'000	Restated RM'000
Assets				
Property, plant and equipment	3	94,326	87,186	100,815
Intangible assets	4	1,968	2,518	9,700
Investment properties	5	231,680	231,680	221,600
Subsidiary company		-	-	75,032
Other investments	6	5,757,774	4,718,579	4,397,075
- HTM financial assets	6(a)	205,254	215,862	211,752
- AFS financial assets	6(b)	4,367,828	3,443,103	3,143,211
- HFT financial assets	6(c)	469,046	371,337	281,042
- Loans and receivables	6(d)	715,646	688,277	761,070
Derivative assets	7	303	896	42
Deferred tax assets	14	-	-	3,942
Tax recoverable		-	-	53
Reinsurance assets		25,714	23,723	234,384
Insurance receivables	8	43,837	32,895	69,899
Other receivables	9	86,531	62,008	66,098
Non-current assets held-for-sale	10(b)	55	578,780	60
Cash and cash equivalents		1,021,154	1,185,053	890,402
Total assets		7,263,342	6,923,318	6,069,102
Equity, policyholders' fund and liabilities				
Share capital	11	200,000	200,000	200,000
Reserves	12	339,735	302,669	277,615
Total equity		539,735	502,669	477,615
Insurance contract liabilities	13	5,838,934	5,210,800	5,043,022
Deferred tax liabilities	14	32,834	16,494	-
Tax payables		18,348	31,741	17,048
Insurance payables	15	41,867	34,381	59,886
Other payables	16	735,844	571,414	471,050
Dividend payable	26	54,000	-	-
Derivative liabilities	7	1,780	5,112	481
Liabilities directly associated with assets classified as held-for-sale	10(b)	-	550,707	-
Total liabilities		6,723,607	6,420,649	5,591,487
Total equity, policyholders' fund and liabilities		7,263,342	6,923,318	6,069,102

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 2011**

		2011	2010
	Note	RM'000	Restated RM'000
Operating revenue	17		
- continuing operations		1,623,844	1,330,330
- discontinued operations		82,111	334,408
		<u>1,705,955</u>	<u>1,664,738</u>
Continuing operations			
Gross earned premiums		1,306,005	1,071,373
Premiums ceded to reinsurers		(62,541)	(55,315)
Net earned premiums	18	<u>1,243,464</u>	<u>1,016,058</u>
Investment income	19	317,839	258,957
Realised gains	20	76,804	46,621
Fair value gains	21	24,274	44,808
Fees and commission income	22	3,474	2,551
Other operating income-net	23	30,754	-
Other revenue		<u>453,145</u>	<u>352,937</u>
Gross benefits and claims paid		(612,101)	(457,523)
Claims ceded to reinsurers		49,984	42,964
Gross change to contract liabilities		(510,562)	(475,878)
Change in contract liabilities to reinsurers		(407)	3,803
Net claims		<u>(1,073,086)</u>	<u>(886,634)</u>
Fees and commission expense		(244,791)	(194,780)
Management expenses	24	(90,511)	(75,037)
Other operating expenses-net	23	-	(12,257)
Other expenses		<u>(335,302)</u>	<u>(282,074)</u>
Surplus/profit before taxation		288,221	200,287
Taxation of life insurance		(29,987)	(24,802)
Surplus after taxation/profit before taxation		<u>258,234</u>	<u>175,485</u>
Taxation		(43,579)	(33,391)
Profit for the financial year from continuing operations		<u>214,655</u>	<u>142,094</u>

HONG LEONG ASSURANCE BERHAD

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**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011 (CONT'D)**

		2011	2010
	Note	RM'000	Restated RM'000
Discontinued operations			
Profit from discontinued operations, net of tax		986	26,298
Gain on disposal of general insurance, net	35	629,839	-
Profit for the financial year from discontinued operations		<u>630,825</u>	<u>26,298</u>
Profit for the financial year		<u>845,480</u>	<u>168,392</u>
Other comprehensive income			
Change in fair value reserves:			
Net gain arising during the financial year		15,922	16,388
Net realised gain transferred to Income Statement		(3,613)	(7,505)
		<u>12,309</u>	<u>8,883</u>
Tax effects thereon	14	(3,077)	(2,221)
		<u>9,232</u>	<u>6,662</u>
Total comprehensive income for the financial year		<u><u>854,712</u></u>	<u><u>175,054</u></u>
Earnings per share (sen)			
	27		
- continuing operations		107.33	71.05
- discontinued operations		315.41	13.15
		<u>422.74</u>	<u>84.20</u>

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

HONG LEONG ASSURANCE BERHAD

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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

	Note	Issued and fully paid ordinary shares of RM1 each		Non- distributable	Distributable	Total RM'000
		No. of shares '000	Share capital RM'000	Fair value reserve RM'000	Retained earnings RM'000	
At 1 July 2009		200,000	200,000	(2,531)	280,146	477,615
Total comprehensive income for the financial year						
- as restated		-	-	6,662	168,392	175,054
Dividend paid during the financial year	26	-	-	-	(150,000)	(150,000)
At 30 June 2010		<u>200,000</u>	<u>200,000</u>	<u>4,131</u>	<u>298,538</u>	<u>502,669</u>
At 1 July 2010		200,000	200,000	4,131	296,958	501,089
- changes in accounting policies	2(v)	-	-	-	1,580	1,580
- as restated 1 July 2010		<u>200,000</u>	<u>200,000</u>	<u>4,131</u>	<u>298,538</u>	<u>502,669</u>
Total comprehensive income for the financial year						
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>13,363</u>	<u>326,372</u>	<u>539,735</u>

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

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**STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

	2011	2010
	RM'000	RM'000
Operating activities		
Profit for the financial year	845,480	168,392
Investment income recorded in income statement	(320,409)	(275,409)
Realised gains recorded in income statement	(77,225)	(56,145)
Fair value gains recorded in income statement	(45,009)	(44,887)
Foreign exchange (gain)/loss	(24,361)	17,606
Proceeds from sale of HFT financial assets	152,416	126,157
Maturity of HFT financial assets	6,026	3,049
Purchase of HFT financial assets	(187,884)	(170,059)
Proceeds from sale of AFS financial assets	447,615	1,192,897
Maturity of AFS financial assets	217,885	101,000
Purchase of AFS financial assets	(1,530,470)	(1,533,791)
Proceeds from sale of HTM financial assets	15,095	-
Proceeds from realisation of derivatives	8,027	-
(Increase)/decrease in loan and receivables	(27,369)	72,793
Cash proceeds from disposal of non-current asset held-for-sale	9,225	-
	<u>(1,356,438)</u>	<u>(566,789)</u>
Non-cash items:		
Depreciation of property, plant and equipment	5,195	7,028
Gain on disposal of property, plant and equipment	(5)	(246)
Impairment on property, plant and equipment	819	-
Property, plant and equipment written off	382	1,463
Intangible assets written off	191	-
Amortisation of intangible assets	2,375	6,612
Gain on disposal of non-current asset held-for-sale	(618,646)	-
Impairment on AFS financial assets	22,212	-
Allowance for impairment	36	99
Bad debts written off	-	239
Tax expense	74,273	64,870
	<u>(513,168)</u>	<u>80,065</u>
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(1,991)	210,661
(Increase)/decrease in insurance receivables	(10,978)	36,905
(Increase)/decrease in other receivables	(13,828)	9,144
Increase in insurance contract liabilities	509,910	14,770
Increase/(decrease) in insurance payables	7,486	(25,505)
Increase in other payables	165,675	97,138
	<u>656,274</u>	<u>343,113</u>

HONG LEONG ASSURANCE BERHAD

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STATEMENT OF CASH FLOW**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011 (CONT'D)**

	2011	2010
	RM'000	RM'000
Cash (used in)/generated from operating activities	(367,852)	24,781
Dividend income received	47,115	29,456
Interest income received	228,150	208,082
Rental income received	17,071	15,355
Income taxes paid	(81,599)	(44,467)
Net cash (outflows)/inflows from operating activities	<u>(157,115)</u>	<u>233,207</u>
Investing activities		
Proceeds from sale of property, plant and equipment	5	567
Purchase of property, plant and equipment	(6,237)	(9,518)
Purchase of intangible assets	(465)	(132)
Proceeds from liquidation of subsidiary company	-	72,646
Net cash (outflows)/inflows from investing activities	<u>(6,697)</u>	<u>63,563</u>
Financing activities		
Dividends paid	(87)	(2,119)
Net cash outflows from financing activities	<u>(87)</u>	<u>(2,119)</u>
Net (decrease)/increase in cash and cash equivalents	(163,899)	294,651
Cash and cash equivalents at beginning of the financial year	1,185,053	890,402
Cash and cash equivalents at end of the financial year	<u><u>1,021,154</u></u>	<u><u>1,185,053</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances	14,144	15,126
Fixed and call deposits with maturity of less than 3 months		
-Licensed financial institutions	987,010	1,149,927
-Others	20,000	20,000
	<u><u>1,021,154</u></u>	<u><u>1,185,053</u></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 principal activities of the Company are the underwriting of life insurance business and the underwriting of all classes of general insurance business up to 30 September 2010. On 1 October 2010, the Company transferred its general business assets, liabilities and business as a going concern to MSIG Insurance (Malaysia) Bhd ("MSIM") as disclosed in Note 34 to the financial statements. Other than as stated above, there have been no significant changes in the nature of the principal activities 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 18 August 2011.

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, and comply with the 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"), and comply with the provisions of the Companies Act, 1965 and the Insurance Act, 1996, in all material aspects.

HONG LEONG ASSURANCE BERHAD

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(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 2010 are as follows:

- FRS 1 (revised) "First-time Adoption of Financial Reporting Standards" and the related Amendments
- Amendment to FRS 2 "Share-based Payment"
- FRS 4 "Insurance Contracts"
- Amendments to FRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
- FRS 7 "Financial Instruments: Disclosures" and the related Amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 127 (revised) "Consolidated and Separate Financial Statements"
- Amendments to FRS 132 "Financial Instruments: Presentation"
- Amendments to FRS 138 "Intangible Assets"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related Amendments
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- Improvements to FRSs (2009)

Changes in accounting policies and the effect from the changes are disclosed in Note 2(v).

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

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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

The accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board that are applicable to the Company, which the Company has not early adopted, are as follows:

<u>FRSs</u>	<u>Effective date</u>
● Amendments to FRS 1 "First Time Adoption of Financial Reporting Standards" - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
● Amendments to FRS 2 "Group Cash-settled Share-based Payment Transactions"	1 January 2011
● Amendments to FRS 7 "Improving Disclosures about Financial Instruments"	1 January 2011
● FRS 124 (revised) "Related Party Disclosures"	1 January 2012
● Improvements to FRSs (2010)	1 January 2011
● IC Interpretation 4 "Determining whether an Arrangement contains a Lease"	1 January 2011

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

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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.

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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(g)(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

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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.

Arising from the adoption of FRS 139 with effect from 1 July 2010, financial instruments are categorised and measured using accounting policies as mentioned below. The adoption of FRS 139 did not have any material impact on the financial statements as the accounting policies were consistent with those adopted on 1 July 2009 pursuant to the RBC Framework.

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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

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.

(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.

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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

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.

- 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.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

- 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.

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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 provision for impairment.

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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 provision 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.

Prior to the adoption of FRS 139, other receivables were initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established. Subsequent to initial recognition, other receivables were stated at cost less any allowance for doubtful debts.

The change in the accounting policy does not have any material impact on the financial statements.

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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)

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(g).

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(g)(i)).

The accounting policy on insurance receivables that was applied in the previous financial year and the impact of the change in accounting policy during the year are described in Note 2(v) to the financial statements.

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.

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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 (cont'd)

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

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.

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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. The carrying value is the cost of the deposit or placement. The fair value of fixed interest or yield-bearing deposits is measured at the face value or market value, whichever is lower.

The fair value of derivatives is obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

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

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NOTES TO THE FINANCIAL STATEMENTS

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

(f) Fair value of financial instruments (cont'd)

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

(g) 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(g) Impairment (cont'd)

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

(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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(g) Impairment (cont'd)

(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.

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.

The accounting policy for making allowances for insurance receivables that was applied in the previous financial year is described in Note 2(v)(b) to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

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

(g) Impairment (cont'd)

(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.

(h) Cash and cash equivalents

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

(i) 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(i) Product classification (cont'd)

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(j) 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.

(k) General insurance underwriting results

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

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NOTES TO THE FINANCIAL STATEMENTS

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

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

Premium income

Premiums from direct business are recognised during the financial year upon the issuance of insurance policies. Premiums in respect of risks incepted for which insurance policies have not been raised as of the date of completion accounts of the General Insurance fund are accrued at that date. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers. Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

Insurance contract liabilities

These liabilities comprise premium liabilities and claims liabilities.

(i) Premium liabilities

The premium liabilities represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

Premium liabilities refer to the higher of:

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

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NOTES TO THE FINANCIAL STATEMENTS

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

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

(i) Premium liabilities (cont'd)

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

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

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

(ii) Claims liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the reporting date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported ("IBNR") at the reporting date based on an actuarial valuation with a PRAD at a 75% confidence level.

Acquisition costs

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

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NOTES TO THE FINANCIAL STATEMENTS

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

(1) 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(1) 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(1) 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.

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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

(i) General insurance contract

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities which include a margin for adverse deviation are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of the statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques on empirical data. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

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NOTES TO THE FINANCIAL STATEMENTS

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

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

(i) General insurance contract (cont'd)

Premium liabilities represent premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

The Company engaged an independent external actuary to perform the claims liabilities estimation. A number of methods were employed initially in the estimation of ultimate claims reserves using the Company's own historical experience and other relevant market quantitative and qualitative information. The valuation methods used include the Incurred Claim Development method, the Paid Claim Development method, the Bornhuetter-Ferguson Method, the Mack's Method and Stanard-Buhlmann's Method. The final estimates were selected after due consideration was given to the strengths and weaknesses of the various methods used and the information available at hand. To mitigate the potential effect of uncertainty, a risk margin was also incorporated into the ultimate claims estimates. The provision for adverse deviation is set at 75 per cent confidence level.

(ii) Life insurance contract

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.

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NOTES TO THE FINANCIAL STATEMENTS

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

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

(ii) Life insurance contract (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.

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NOTES TO THE FINANCIAL STATEMENTS

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

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

(ii) Life insurance contract (cont'd)

(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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(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 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(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.

(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 financial assistance given to the trustee to purchase the HLFG shares for the purpose of the scheme is recorded as advances to trustee at the date of the statement of financial position.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(u) Contingent liabilities and contingent assets (cont'd)

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) Changes in accounting policies

During the financial year, the Company changed the following accounting policies upon adoption of new accounting standards, amendments and improvements to published standards and interpretations:

- FRS 101 (revised): Presentation of Financial Statements;
- FRS 7: Financial Instruments – Disclosures;
- FRS 4: Insurance Contracts;
- FRS 139: Financial Instruments – Recognition and Measurement; and
- FRS 117: Leases

The following describes and discloses the impact of the above FRS to the financial statements of the Company.

(a) FRS 101(R) and FRS 7

The adoption of FRS 101 (R) effective for the financial year ended 30 June 2011 resulted in the following:

- (i) The income statement for the financial year ended 30 June 2011 has been re-presented as two statements, namely the income statement and statement of comprehensive income. All non-owner changes in equity that were presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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NOTES TO THE FINANCIAL STATEMENTS

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

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

(a) FRS 101(R) and FRS 7 (cont'd)

- (ii) A statement of financial position at the beginning of the earliest comparative period, i.e. 1 July 2009 has been included following the change in the comparative figures for 30 June 2010 to conform with current financial year's presentation, arising from those changes in accounting policy with retrospective application. Similarly, 3 years comparison is disclosed for those affected notes to the financial statements with retrospective changes.

FRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments. FRS 7 does not require comparative disclosures when the standard is first applied.

(b) FRS 4 Insurance Contracts

During the financial year, the Company changed its accounting policy relating to the assessment of impairment loss on insurance receivables upon adoption of FRS 4 Insurance Contracts. Prior to 1 July 2010, an allowance was made for any premiums, including agents' and reinsurers' balances, which remained outstanding for more than six months from the date on which they became receivable, except for outstanding motor premiums for which an allowance was made for amounts outstanding for more than 30 days.

Upon the adoption of FRS 4, 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 the income statement. An objective evidence of impairment is deemed to exist where the insurance receivables is past due for more than 90 days or 3 months.

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NOTES TO THE FINANCIAL STATEMENTS

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

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

(b) FRS 4 Insurance Contracts (cont'd)

FRS 4 prohibits offsetting of income and expenses from reinsurance contracts against the income or expenses from the related insurance contracts and offsetting of reinsurance assets against the related insurance liabilities. Following the adoption of FRS 4, the income and expenses from reinsurance contracts and reinsurance assets are required to be presented on a gross basis.

FRS 4 also introduced new disclosures requirements but does not require certain comparative disclosures when the standard is first applied.

The effects of this change in accounting policy are applied retrospectively according to the transitional provision of the accounting standard.

(c) FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. However, as the Company has previously adopted the RBC Framework for Insurers, certain principles in relation to the recognition, derecognition and measurement of financial instruments, which are consistent with FRS 139, have already been adopted by the Company. Therefore, the adoption of FRS 139 on 1 July 2010 did not have any material impact to the financial statements of the Company.

(d) FRS 117 Leases

Following the adoption of improvement to FRS 117: Leases, leasehold land, which the Company has substantially all the risks and rewards incidental to ownership, has been reclassified retrospectively from operating lease to finance lease. Previously, leasehold land was classified as an operating lease unless title is expected to pass to the lessee at the end of lease term. The comparative figures for the financial year ended 30 June 2010 have been restated following the change in accounting policy.

There were no significant effects to the Company's financial results for the financial year ended 30 June 2011 and 30 June 2010 as a result of the aforementioned changes in accounting policies.

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NOTES TO THE FINANCIAL STATEMENTS**2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Changes in accounting policies (cont'd)**

The following tables disclose the adjustments that have made in accordance with the transitional and new provisions of the respective FRSs to each of the line items in the Company's statement of financial position as at 1 July 2009, 30 June 2010 and 30 June 2011.

	1 July 2009				30 June 2010			30 June 2011	
	As	Effects	Effects	Restated	As	Effects	Effects	Effects	
	previously	of	of	balance	previously	of	of	of FRS	
reported	FRS 4	FRS 117	balance	reported	FRS 4	FRS 117	balance	of FRS	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Statement of									
financial position									
Assets									
Property, plant									
and equipment	-	-	2,789	2,789	-	-	1,990	1,990	-
Prepaid lease payments	2,789	-	(2,789)	-	1,990	-	(1,990)	-	-
Reinsurance assets									
-Life insurance	-	19,685	-	19,685	-	23,723	-	23,723	25,714
-General insurance	-	214,699	-	214,699	-	-	-	-	-
Non-current assets									
held-for-sale									
-Reinsurance assets	-	-	-	-	-	230,605	-	230,605	-
-Insurance receivables	-	-	-	-	31,311	1,580	-	32,891	-

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NOTES TO THE FINANCIAL STATEMENTS**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Changes in accounting policies (cont'd)**

	1 July 2009				30 June 2010			30 June 2011	
	As	Effects	Effects	Restated	As	Effects	Effects	Restated	
	previously	of	of	balance	previously	of	of	balance	
reported	FRS 4	FRS 117	balance	reported	FRS 4	FRS 117	balance	Effects	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	of FRS
									RM'000
Statement of financial position									
Liabilities									
Insurance contract liabilities									
-Life insurance	(4,551,241)	(19,685)	-	(4,570,926)	(5,187,077)	(23,723)	-	(5,210,800)	(25,714)
-General insurance	(257,397)	(214,699)	-	(472,096)	-	-	-	-	-
Liabilities directly associated with assets classified as held-for-sale									
-Insurance contract liabilities	-	-	-	-	(276,149)	(230,605)	-	(506,754)	-
Equity									
Retained earnings	-	-	-	-	(296,958)	(1,580)	-	(298,538)	-

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NOTES TO THE FINANCIAL STATEMENTS**2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Changes in accounting policies (cont'd)**

The following tables disclose the adjustments effects of the new FRS to each of the line items in the Company's income statement/statement of comprehensive income for the financial years ended 30 June 2010 and 30 June 2011.

	Effects to the financial year ended 30 June 2010			
	As	Effects	Effects	Restated
	previously	of	of	balance
	reported	FRS 4	FRS 117	balance
	RM'000	RM'000	RM'000	RM'000
Continuing operations				
Depreciation of property, plant and equipment	-	-	(32)	(32)
Amortisation of prepaid lease payments	(32)	-	32	-
Profit before taxation	175,485	-	-	175,485

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NOTES TO THE FINANCIAL STATEMENTS**2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Changes in accounting policies (cont'd)**

	Effects to the financial year ended 30 June 2010			
	As	Effects	Effects	Restated
	previously	of	of	balance
	reported	FRS 4	FRS 117	balance
	RM'000	RM'000	RM'000	RM'000
Discontinued operations				
(Allowance)/write back of impairment	(1,679)	1,580	-	(99)
Depreciation of property, plant and equipment	-	-	(10)	(10)
Amortisation of prepaid lease payments	(10)	-	10	-
Profit before taxation	<u>31,395</u>	<u>1,580</u>	<u>-</u>	<u>32,975</u>
Earnings per share (sen):				
- continuing operations	71.05	-	-	71.05
- discontinued operations	<u>12.36</u>	<u>0.79</u>	<u>-</u>	<u>13.15</u>

There was no impact to the current financial year's results as a result of adopting the aforementioned FRS.

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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 2009	2,896	3,322	1,448	82,517	8,353	52,698	2,239	1,475	154,948
Additions	-	-	-	-	47	9,330	141	-	9,518
Disposal	-	-	-	-	-	-	(990)	-	(990)
Written off	-	-	-	-	(3,644)	(9,845)	-	-	(13,489)
Reclassification	-	-	-	-	-	-	-	(858)	(858)
Transferred to non-current assets held-for-sale	(2,533)	(894)	(1,267)	(3,343)	(1,989)	(25,306)	(634)	-	(35,966)
At 30 June 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 from 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

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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 2009	-	533	500	2,104	6,776	43,030	1,190	-	54,133
Charge for the year	-	42	39	1,650	577	4,355	365	-	7,028
Disposal	-	-	-	-	-	-	(669)	-	(669)
Written off	-	-	-	-	(3,243)	(8,783)	-	-	(12,026)
Transferred to non-current assets held-for-sale	-	(137)	(489)	(902)	(1,755)	(18,778)	(428)	-	(22,489)
At 30 June 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 from 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

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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 1 July 2009	2,896	2,789	948	80,413	1,577	9,668	1,049	1,475	100,815
At 30 June 2010	363	1,990	131	76,322	412	7,053	298	617	87,186
At 30 June 2011	363	1,956	127	74,738	562	12,788	540	3,252	94,326

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 1 July 2009	-	-	-	-	1,614	21,701	413	-	23,728
At 30 June 2010	-	-	-	-	1,347	11,320	246	-	12,913
At 30 June 2011	-	-	-	-	1,777	19,549	246	-	21,572

*Property, plant and equipment transferred from non-current assets held-for-sale are pertaining to the remaining property, plant and equipment held by the Company which were not transferred to MSIM upon merger of the non-life business with MSIM.

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

	2011	2010
	RM'000	RM'000
Cost		
At 1 July	34,573	66,039
Additions	465	132
Reclassification	-	858
Written off	(5,477)	-
Transferred from/(to) non-current assets held-for-sale *	32,447	(32,456)
At 30 June	<u>62,008</u>	<u>34,573</u>
Accumulated Amortisation		
At 1 July	32,055	56,339
Amortisation	2,375	6,612
Written off	(5,286)	-
Transferred from/(to) non-current assets held-for-sale *	30,896	(30,896)
At 30 June	<u>60,040</u>	<u>32,055</u>
Net carrying amount	<u>1,968</u>	<u>2,518</u>

*Intangible assets transferred from non-current assets held-for-sale are pertaining to the remaining intangible assets held by the Company which were not transferred to MSIM upon merger of the non-life business with MSIM.

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NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT PROPERTIES

	2011	2010
	RM'000	RM'000
At 1 July	231,680	221,600
Fair value gain	-	10,080
At 30 June	<u>231,680</u>	<u>231,680</u>
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 was estimated based on open market valuation by an independent professional valuer, Messr Rahim & Co International Property Consultants. Revaluation are performed annually based on the properties' fair market values using the direct value comparison and income approach. The fair value changes are recorded in profit or loss.

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

	2011	2010
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	541,660	596,195
Debt securities	3,066,315	2,412,317
Equity securities	1,107,269	712,266
Unit and property trust funds	120,975	101,945
Structured investments	203,158	180,256
Loans	676,745	655,246
Deposits with financial institutions	41,652	60,354
	<u>5,757,774</u>	<u>4,718,579</u>

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

Held-to-maturity financial assets ("HTM")	205,254	215,862
Available-for-sale financial assets ("AFS")	4,367,828	3,443,103
Held-for-trading financial assets ("HFT")	469,046	371,337
Loans and receivables ("LAR")	715,646	688,277
	<u>5,757,774</u>	<u>4,718,579</u>

(a) HTM**At amortised cost:**

Debt securities		
- Unquoted in Malaysia	205,254	215,862

At fair value:

Debt securities		
- Unquoted in Malaysia	228,052	237,734

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

	2011	2010
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	529,426	583,510
Debt securities		
- Unquoted in Malaysia	2,464,884	1,958,221
- Unquoted outside Malaysia	325,716	177,314
Equity securities		
- Quoted in Malaysia	557,239	406,173
- Unquoted in Malaysia	2,147	2,147
- Quoted outside Malaysia	192,769	52,019
Unit trusts		
- Quoted in Malaysia	88,344	75,912
- Unquoted in Malaysia	11,330	11,008
Structured investments		
- Unquoted in Malaysia	195,973	176,799
	<u>4,367,828</u>	<u>3,443,103</u>

(c) HFT

At fair value:		
Malaysian Government Securities and other Government guaranteed assets	12,234	12,685
Debt securities		
- Unquoted in Malaysia	70,461	60,920
Equity securities		
- Quoted in Malaysia	341,695	244,096
- Quoted outside Malaysia	13,419	7,831
Unit trusts		
- Quoted in Malaysia	8,131	5,079
- Unquoted in Malaysia	13,170	9,946
Structured investments		
- Unquoted in Malaysia	7,185	3,457
Fixed and call deposits		
- Licensed financial institutions	2,751	27,323
	<u>469,046</u>	<u>371,337</u>

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NOTES TO THE FINANCIAL STATEMENTS**6. OTHER INVESTMENTS (CONT'D)****(d) LAR**

	2011	2010
	RM'000	RM'000
At cost:		
Fixed and call deposits		
- Licensed financial institutions	38,901	33,031
Policy loans	28,734	25,954
Premium loans	648,011	629,292
	<u>715,646</u>	<u>688,277</u>
At fair value:		
Fixed and call deposits		
- Licensed financial institutions	38,901	33,031
Policy loans	28,734	25,954
Premium loans	648,011	629,292
	<u>715,646</u>	<u>688,277</u>

(e) Fair value of financial investments

The following table shows financial investments recorded at fair value analysed by the different basis of fair values as follows:

	AFS	HFT	Total
	RM'000	RM'000	RM'000
30 June 2011			
Quoted market price	849,682	379,166	1,228,848
Valuation techniques			
- market observable inputs	3,515,999	89,880	3,605,879
Valuation techniques			
- non-market observable inputs	2,147	-	2,147
	<u>4,367,828</u>	<u>469,046</u>	<u>4,836,874</u>
30 June 2010			
Quoted market price	545,112	294,275	839,387
Valuation techniques			
- market observable inputs	2,895,844	77,062	2,972,906
Valuation techniques			
- non-market observable inputs	2,147	-	2,147
	<u>3,443,103</u>	<u>371,337</u>	<u>3,814,440</u>

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

	HTM	AFS	HFT	LAR	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2009	211,752	3,143,211	281,042	761,070	4,397,075
Purchases	-	1,533,791	170,059	-	1,703,850
Maturities	-	(101,000)	(3,049)	-	(104,049)
Disposals	-	(1,197,555)	(115,300)	-	(1,312,855)
Fair value (losses)/gains recorded in :					
Income statement	-	(7,505)	38,585	-	31,080
Other comprehensive income	-	16,388	-	-	16,388
Insurance contract liabilities (Note 13)	-	166,313	-	-	166,313
Movement in LAR	-	-	-	53,520	53,520
Transferred to non-current assets held-for-sale	-	(108,136)	-	(126,313)	(234,449)
Accretion of discount, net of amortisation of premium (Note 19)	4,110	14,739	-	-	18,849
Currency translation differences	-	(17,143)	-	-	(17,143)
At 30 June 2010	<u>215,862</u>	<u>3,443,103</u>	<u>371,337</u>	<u>688,277</u>	<u>4,718,579</u>

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

	HTM	AFS	HFT	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
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	-	(3,192)	42,275	-	39,083
Other comprehensive income	-	19,420	-	-	19,420
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
Currency translation differences	-	26,729	-	-	26,729
At 30 June 2011	<u>205,254</u>	<u>4,367,828</u>	<u>469,046</u>	<u>715,646</u>	<u>5,757,774</u>

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NOTES TO THE FINANCIAL STATEMENTS

7. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	RM'000	RM'000
Derivative assets:		
- Forward foreign contracts - fair value hedge	303	896
Derivative liabilities:		
- Interest swap - fair value hedge	-	4,968
- Forward foreign contracts - fair value hedge	1,780	144
	<u>1,780</u>	<u>5,112</u>

(a) Forward foreign exchange contracts

The notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2011 was RM386.3 million (2010: RM180.9 million). As the Company does not apply hedge accounting, the full fair value gain or loss was recognised in profit or loss during the financial year.

(b) Interest rate swap

The interest rate swap transaction as at 30 June 2010 with a notional amount of RM46,000,000 was entered into by the Company with a licensed bank.

8. INSURANCE RECEIVABLES

	2011	2010
	RM'000	RM'000
Due premium including agents/brokers and co-insurers balances	44,329	33,387
Allowance for impairment	(492)	(492)
	<u>43,837</u>	<u>32,895</u>

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NOTES TO THE FINANCIAL STATEMENTS

9. OTHER RECEIVABLES

	2011	2010
	RM'000	RM'000
Income due and accrued	50,505	39,810
Other receivables	22,710	10,043
Advances to trustee	13,316	12,155
	<u>86,531</u>	<u>62,008</u>

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

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

There is no new grant of options during the financial year.

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NOTES TO THE FINANCIAL STATEMENTS

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

(a) Continuing operations

	2011 RM'000	2010 RM'000
Fair value		
At end of the financial year	<u>55</u>	<u>60</u>

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

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.

(b) Discontinued operations

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

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

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NOTES TO THE FINANCIAL STATEMENTS**10 . NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)****(b) Discontinued operations (cont'd)**

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

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

	2010
	RM'000
Property, plant and equipment (Note 3)	13,477
Intangible assets (Note 4)	1,560
AFS financial assets	108,136
Loans and receivables	1,178
Reinsurance assets	230,605
Insurance receivables	32,891
Other receivables	13,482
Cash and cash equivalents	177,391
Total	<u>578,720</u>

The AFS financial assets held under non-current assets held-for-sale were summarised as follows:

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

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NOTES TO THE FINANCIAL STATEMENTS**10 . NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)****(b) Discontinued operations (cont'd)****(i) Non-current assets classified as held-for-sale comprise of: (cont'd)**

	2010
	RM'000
Insurance receivables	
Due premium including agents, brokers and co-insurers balances	26,799
Due from reinsurers and cedants	11,572
	<hr/>
	38,371
Allowance for impairment	(5,480)
	<hr/>
	32,891
	<hr/> <hr/>
Other receivables	
Other receivables, deposits and repayments	13,482
	<hr/> <hr/>

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

	2010
	RM'000
Insurance contract liabilities	506,754
Insurance payables	29,060
Other payables	14,893
	<hr/>
Total	550,707
	<hr/> <hr/>

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NOTES TO THE FINANCIAL STATEMENTS**10 . NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)****(b) Discontinued operations (cont'd)**

The insurance contract liabilities held under liabilities directly associated with non-current assets held-for-sale were summarised as follows:

	2010		
	Gross	Re-	Net
	RM'000	insurance	RM'000
		RM'000	RM'000
Insurance contract liabilities			
Claims liabilities	381,527	(194,507)	187,020
Premium liabilities	125,227	(36,098)	89,129
	<u>506,754</u>	<u>(230,605)</u>	<u>276,149</u>
<u>Claims liabilities</u>			
	Gross	Re-	Net
	RM'000	insurance	RM'000
		RM'000	RM'000
At 1 July 2009	353,404	(182,300)	171,104
Claims incurred during the financial year (Note 35)	215,358	(80,492)	134,866
Claims paid during the financial year (Note 35)	(187,235)	68,285	(118,950)
At 30 June 2010	<u>381,527</u>	<u>(194,507)</u>	<u>187,020</u>
<u>Premium liabilities</u>			
	Gross	Re-	Net
	RM'000	insurance	RM'000
		RM'000	RM'000
At 1 July 2009	118,692	(32,399)	86,293
Premium written in the financial year (Note 18)	324,491	(101,872)	222,619
Premium earned during the financial year (Note 18)	(317,956)	98,173	(219,783)
At 30 June 2010	<u>125,227</u>	<u>(36,098)</u>	<u>89,129</u>

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NOTES TO THE FINANCIAL STATEMENTS**10 . NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE (CONT'D)****(b) Discontinued operations (cont'd)**

The payables held under liabilities directly associated with non-current assets held-for-sale were summarised as follows:

	2010
	RM'000
Insurance payables	
Amount due to reinsurers and cedants	19,101
Amount due to agents, brokers, co-insurers and insureds	9,020
Deposit withheld from reinsurers	939
	<u>29,060</u>
Other payables	
Other payables and accrued liabilities	<u>14,893</u>

(iii) Net cash flows attributable to the discontinued operations comprised:

	2010
	RM'000
Net inflow from operating activities	1,241
Net outflow from investing activities	(3,331)
	<u>(2,090)</u>

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NOTES TO THE FINANCIAL STATEMENTS

11 . SHARE CAPITAL

	2011		2010	
	No of shares '000	RM'000	No of shares '000	RM'000
Ordinary shares of RM1.00 each				
Authorised:				
At beginning of financial year/				
At end of financial year	200,000	200,000	200,000	200,000
Issued and fully paid up:				
At beginning of financial year/				
At end of financial year	200,000	200,000	200,000	200,000

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 2011.

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

	30 June 2011			30 June 2010		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
Life insurance contract liabilities	5,838,934	(25,714)	5,813,220	5,210,800	(23,723)	5,187,077
				1 July 2009		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
Life insurance contract liabilities	4,570,926	(19,685)	4,551,241			
General insurance contract liabilities	472,096	(214,699)	686,795			
	5,043,022	(234,384)	5,238,036			

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

	2011			2010		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
Provision for outstanding claims	58,413	(14,847)	43,566	59,066	(12,449)	46,617
Actuarial liabilities	4,350,248	(10,867)	4,339,381	3,754,486	(11,274)	3,743,212
Unallocated surplus	618,236	-	618,236	802,897	-	802,897
AFS fair value reserves	241,050	-	241,050	122,826	-	122,826
Net asset value attributable to unitholders (Note 35)	570,987	-	570,987	471,525	-	471,525
	5,838,934	(25,714)	5,813,220	5,210,800	(23,723)	5,187,077

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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 2009	3,007,751	1,563,175	4,570,926	(5,653)	(14,032)	(19,685)	4,551,241
Projected change for inforce policies at 30 June 2009	236,300	13,808	250,108	-	742	742	250,850
Experience variance	57,044	(2,750)	54,294	-	(2,873)	(2,873)	51,421
New business	74,527	38,736	113,263	-	(1,308)	(1,308)	111,955
Discount rate change	3,444	4,096	7,540	-	(76)	(76)	7,464
Adjustment due to changes in assumptions:							
Mortality and morbidity	1,754	(899)	855	-	102	102	957
Lapse rate	15,820	(1,776)	14,044	-	(390)	(390)	13,654
Policy expenses and inflation	1,053	230	1,283	-	-	-	1,283
Other assumptions	(40,247)	(13,689)	(53,936)	-	-	-	(53,936)
Other changes	17,941	(7,803)	10,138	-	-	-	10,138
Change in provision for outstanding claims	9,305	1,684	10,989	776	(1,011)	(235)	10,754
Change in net asset value							
attributable to unitholders	-	105,585	105,585	-	-	-	105,585
Change in AFS fair value reserves	116,001	50,312	166,313	-	-	-	166,313
Change in unallocated surplus	13,758	(41,055)	(27,297)	-	-	-	(27,297)
Deferred tax effects: (Note 14)							
- Change in AFS fair value reserves	(9,280)	(4,025)	(13,305)	-	-	-	(13,305)
At 30 June 2010	3,505,171	1,705,629	5,210,800	(4,877)	(18,846)	(23,723)	5,187,077

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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	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

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

	2011	2010
	RM'000	RM'000
At 1 July	(16,494)	3,942
Recognised in:		
Income statement (Note 25)	(6,067)	(4,910)
Other comprehensive income	(3,077)	(2,221)
Insurance contract liabilities (Note 13)	(7,196)	(13,305)
At 30 June	<u>(32,834)</u>	<u>(16,494)</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.

	2011	2010
	RM'000	RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	(33,204)	(18,735)
Deferred tax assets	370	2,241
	<u>(32,834)</u>	<u>(16,494)</u>

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

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 2009	(1,571)	(2,778)	-	(4,349)
Recognised in:				
Income statement	749	(807)	(2,271)	(2,329)
Other comprehensive income	-	-	(1,377)	(1,377)
Insurance contract liabilities	-	-	(10,680)	(10,680)
At 30 June 2010	<u>(822)</u>	<u>(3,585)</u>	<u>(14,328)</u>	<u>(18,735)</u>
Recognised in:				
Income statement	822	-	(5,018)	(4,196)
Other comprehensive income	-	-	(3,077)	(3,077)
Insurance contract liabilities	-	-	(7,196)	(7,196)
At 30 June 2011	<u>-</u>	<u>(3,585)</u>	<u>(29,619)</u>	<u>(33,204)</u>

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NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAX (CONT'D)****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 2009	1,341	6,558	139	253	8,291
Recognised in:					
Income statement	469	(3,089)	22	17	(2,581)
Other comprehensive income	-	(844)	-	-	(844)
Insurance contract liabilities	-	(2,625)	-	-	(2,625)
At 30 June 2010	<u>1,810</u>	<u>-</u>	<u>161</u>	<u>270</u>	<u>2,241</u>
Recognised in:					
Income statement	(1,810)	351	(161)	(251)	(1,871)
At 30 June 2011	<u>-</u>	<u>351</u>	<u>-</u>	<u>19</u>	<u>370</u>

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

	2011	2010
	RM'000	RM'000
Amount due to reinsurers and cedants	22,905	19,107
Amount due to agents and insureds	18,962	15,274
	<u>41,867</u>	<u>34,381</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

	2011	2010
	RM'000	RM'000
Amount due to insured/policyholders	606,617	490,422
Other payables and accrued liabilities	129,227	80,992
	<u>735,844</u>	<u>571,414</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

	Continuing	Dis-	Total
	operations	continued	operations
	RM'000	operations	RM'000
		RM'000	RM'000
2011			
Gross earned premiums	1,306,005	79,541	1,385,546
Investment income (Note 19)	317,839	2,570	320,409
	<u>1,623,844</u>	<u>82,111</u>	<u>1,705,955</u>
2010			
Gross earned premiums	1,071,373	317,956	1,389,329
Investment income (Note 19)	258,957	16,452	275,409
	<u>1,330,330</u>	<u>334,408</u>	<u>1,664,738</u>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
(a) Gross Premiums			
- Insurance contracts	1,306,005	83,199	1,389,204
- Change in premium liabilities	-	(3,658)	(3,658)
	<u>1,306,005</u>	<u>79,541</u>	<u>1,385,546</u>
(b) Premiums ceded			
- Insurance contracts	(62,541)	(28,097)	(90,638)
- Change in premium liabilities	-	1,978	1,978
	<u>(62,541)</u>	<u>(26,119)</u>	<u>(88,660)</u>
Net earned premiums	<u>1,243,464</u>	<u>53,422</u>	<u>1,296,886</u>
2010			
(a) Gross Premiums			
- Insurance contracts	1,071,373	324,491	1,395,864
- Change in premiums liabilities	-	(6,535)	(6,535)
	<u>1,071,373</u>	<u>317,956</u>	<u>1,389,329</u>
(b) Premiums ceded			
- Insurance contracts	(55,315)	(101,872)	(157,187)
- Change in premiums liabilities	-	3,699	3,699
	<u>(55,315)</u>	<u>(98,173)</u>	<u>(153,488)</u>
Net earned premiums	<u>1,016,058</u>	<u>219,783</u>	<u>1,235,841</u>

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NOTES TO THE FINANCIAL STATEMENTS**19 . INVESTMENT INCOME**

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Interest income			
Available-for-sale financial assets	155,418	780	156,198
Held-for-trading financial assets	8,252	-	8,252
Held-to-maturity financial assets	9,555	-	9,555
Fixed and call deposit	25,794	1,139	26,933
Policy loans and premium loans	34,468	-	34,468
Gross dividends			
Available-for-sale financial assets	36,170	570	36,740
Held-for-trading financial assets	12,122	-	12,122
Rental of properties	17,332	-	17,332
Accretion of discount, net of amortisation of premium			
Available-for-sale financial assets	14,337	81	14,418
Held-to-maturity financial assets	4,391	-	4,391
	<u>317,839</u>	<u>2,570</u>	<u>320,409</u>
2010			
Interest income			
Available-for-sale financial assets	131,091	11,595	142,686
Held-for-trading financial assets	6,022	-	6,022
Held-to-maturity financial assets	9,757	-	9,757
Fixed and call deposit	17,578	2,165	19,743
Policy loans and premium loans	33,281	-	33,281
Gross dividends			
Available-for-sale financial assets	19,695	2,305	22,000
Held-for-trading financial assets	7,180	-	7,180
Rental of properties	15,891	-	15,891
Accretion of discount, net of amortisation of premium			
Available-for-sale financial assets	14,352	387	14,739
Held-to-maturity financial assets	4,110	-	4,110
	<u>258,957</u>	<u>16,452</u>	<u>275,409</u>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Property, plant and equipment			
Realised gains	-	5	5
	<hr/>	<hr/>	<hr/>
Derivatives			
Realised gains	8,027	-	8,027
	<hr/>	<hr/>	<hr/>
HTM financial assets			
Realised gains:			
Debt securities			
- in Malaysia	96	-	96
	<hr/>	<hr/>	<hr/>
AFS financial assets			
Realised gains:			
Equity securities			
- quoted in Malaysia	22,363	502	22,865
- quoted outside Malaysia	18,774	-	18,774
Debt securities			
- in Malaysia	1,083	-	1,083
- outside Malaysia	3,107	-	3,107
Realised losses:			
Equity securities			
- quoted in Malaysia	(1,262)	(81)	(1,343)
- quoted outside Malaysia	(387)	-	(387)
Debt securities			
- in Malaysia	(984)	-	(984)
- outside Malaysia	(5)	-	(5)
	<hr/>	<hr/>	<hr/>
	42,689	421	43,110
	<hr/>	<hr/>	<hr/>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
HFT financial assets			
Realised gains:			
Equity securities			
- quoted in Malaysia	25,360	-	25,360
- quoted outside Malaysia	2,554	-	2,554
Debt securities			
- in Malaysia	223	-	223
Negotiable instrument of deposit	1,018	-	1,018
Realised losses:			
Equity securities			
- quoted in Malaysia	(3,037)	-	(3,037)
Debt securities			
- in Malaysia	(126)	-	(126)
	<u>25,992</u>	<u>-</u>	<u>25,992</u>
Net realised gains	<u>76,804</u>	<u>426</u>	<u>77,230</u>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2010			
Property, plant and equipment			
Realised gains	103	143	246
	<hr/>	<hr/>	<hr/>
Derivatives			
Realised gains	12,444	143	12,587
	<hr/>	<hr/>	<hr/>
Liquidation of subsidiary			
Realised losses	(2,386)	-	(2,386)
	<hr/>	<hr/>	<hr/>
AFS financial assets			
Realised gains:			
Equity securities			
- quoted in Malaysia	15,673	6,357	22,030
Debt securities			
- in Malaysia	5,127	2,683	7,810
- outside Malaysia	7,428	652	8,080
Realised losses:			
Debt securities			
- in Malaysia	(2,625)	(208)	(2,833)
	<hr/>	<hr/>	<hr/>
	25,603	9,484	35,087
	<hr/>	<hr/>	<hr/>
HFT financial assets			
Realised gains:			
Equity securities			
- quoted in Malaysia	10,709	-	10,709
Debt securities			
- in Malaysia	148	-	148
	<hr/>	<hr/>	<hr/>
	10,857	-	10,857
	<hr/>	<hr/>	<hr/>
Net realised gains	46,621	9,770	56,391
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS**21 . FAIR VALUE GAINS AND LOSSES**

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Impairment on AFS financial assets	(20,735)	(1,477)	(22,212)
Fair value (losses)/gains:			
Asset held-for-sale	(5)	-	(5)
Derivatives	2,739	-	2,739
HFT financial assets	42,275	-	42,275
	<u>24,274</u>	<u>(1,477)</u>	<u>22,797</u>
2010			
Fair value gains/(losses):			
Investment properties	10,080	-	10,080
Derivatives	(3,857)	79	(3,778)
HFT financial assets	38,585	-	38,585
	<u>44,808</u>	<u>79</u>	<u>44,887</u>

22 . FEES AND COMMISSION INCOME

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Reinsurance commission income	3,270	5,818	9,088
Surrender charges and other contract fees	204	-	204
	<u>3,474</u>	<u>5,818</u>	<u>9,292</u>
2010			
Reinsurance commission income	2,456	22,809	25,265
Surrender charges and other contract fees	95	-	95
	<u>2,551</u>	<u>22,809</u>	<u>25,360</u>

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NOTES TO THE FINANCIAL STATEMENTS**23 . OTHER OPERATING INCOME/(EXPENSES)**

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Other operating income			
Unrealised foreign exchange gains	32,232	-	32,232
Realised foreign exchange gains	-	138	138
Other income	5,919	407	6,326
	<u>38,151</u>	<u>545</u>	<u>38,696</u>
Other operating expenses			
Unrealised foreign exchange losses	-	(583)	(583)
Realised foreign exchange losses	(7,397)	-	(7,397)
	<u>(7,397)</u>	<u>(583)</u>	<u>(7,980)</u>
Other operating income/(expenses)-net	<u>30,754</u>	<u>(38)</u>	<u>30,716</u>
2010			
Other operating income			
Unrealised foreign exchange gains	-	76	76
Other income	5,250	768	6,018
	<u>5,250</u>	<u>844</u>	<u>6,094</u>
Other operating expenses			
Unrealised foreign exchange losses	(17,403)	-	(17,403)
Realised foreign exchange losses	(104)	(259)	(363)
	<u>(17,507)</u>	<u>(259)</u>	<u>(17,766)</u>
Other operating (expenses)/income-net	<u>(12,257)</u>	<u>585</u>	<u>(11,672)</u>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Employee benefits expense (Note 24(a))	39,140	8,104	47,244
Directors' fees (Note 24(b))	397	57	454
Auditors' remuneration			
- statutory audits	293	-	293
- completion audit	75	160	235
Depreciation of property, plant and equipment	4,824	371	5,195
Amortisation of intangible assets	1,983	392	2,375
IGSF levy	-	193	193
Allowance for impairment	-	36	36
Recovery of bad debts written off	-	(42)	(42)
Property, plant and equipment written off	-	382	382
Intangible assets written off	-	191	191
Impairment of property, plant and equipment	-	819	819
Rental of offices	1,799	659	2,458
Entertainment and travelling	1,365	390	1,755
EDP expenses	7,188	996	8,184
Other expenses	33,447	2,938	36,385
	<u>90,511</u>	<u>15,646</u>	<u>106,157</u>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2010			
Employee benefits expense (Note 24(a))	30,292	24,608	54,900
Directors' fees (Note 24(b))	203	202	405
Auditors' remuneration			
- statutory audits	221	139	360
Depreciation of property, plant and equipment	4,304	2,724	7,028
Amortisation of intangible assets	3,914	2,698	6,612
IGSF levy	-	772	772
(Write back of)/allowance for impairment	(19)	118	99
Bad debts written off	-	239	239
Recovery of bad debts written off	-	(43)	(43)
Property, plant and equipment written off	491	972	1,463
Rental of offices	2,815	3,319	6,134
Entertainment and travelling	1,021	1,267	2,288
EDP expenses	5,119	4,417	9,536
Other expenses	26,676	10,928	37,604
	<u>75,037</u>	<u>52,360</u>	<u>127,397</u>

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NOTES TO THE FINANCIAL STATEMENTS**24 . MANAGEMENT EXPENSES (CONT'D)****(a) Employee benefits expense**

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Wages, salaries and bonuses	33,837	6,855	40,692
Defined contribution retirement plan	3,971	809	4,780
Other employee benefits	1,332	440	1,772
	<u>39,140</u>	<u>8,104</u>	<u>47,244</u>
2010			
Wages, salaries and bonuses	25,480	20,648	46,128
Defined contribution retirement plan	3,030	2,435	5,465
Other employee benefits	1,782	1,525	3,307
	<u>30,292</u>	<u>24,608</u>	<u>54,900</u>

(b) Directors' remuneration

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Executive:			
-Wages, salaries and bonuses	1,292	550	1,842
-Defined contribution retirement plan	193	28	221
-Other employee benefits	58	8	66
	<u>1,543</u>	<u>586</u>	<u>2,129</u>
Non-executive:			
Fees	397	57	454
	<u>1,940</u>	<u>643</u>	<u>2,583</u>

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Represented by:			
Directors' fees	397	57	454
Amount included in employee benefits expense	<u>1,543</u>	<u>586</u>	<u>2,129</u>
2010			
Executive:			
-Wages, salaries and bonuses	678	678	1,356
-Defined contribution retirement plan	81	81	162
-Other employee benefits	30	30	60
	<u>789</u>	<u>789</u>	<u>1,578</u>
Non-executive:			
Fees	203	202	405
	<u>992</u>	<u>991</u>	<u>1,983</u>
Represented by:			
Directors' fees	203	202	405
Amount included in employee benefits expense	<u>789</u>	<u>789</u>	<u>1,578</u>

The remuneration, including benefits-in-kind, attributable to the Company's Chief Executive Officer, during the financial year amounted to RM2,129,000 (2010: RM1,578,000).

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

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

	Numbers of Directors	
	2011	2010
Executive directors		
Below RM50,000	-	-
RM1,550,001 - RM1,600,000	-	1
RM2,100,001 - RM2,150,000	1	-
Non-executive directors		
Below RM50,000	3	2
RM50,001 - RM100,000	4	4
RM100,001 - RM150,000	1	-

25 . TAXATION

	Continuing operations		Dis-continued operations	Total
	Life fund	Shareholders' fund		
	RM'000	RM'000	RM'000	RM'000
2011				
Current income tax:				
Current financial year	24,763	46,346	1,267	72,376
Over provision in prior years	-	(4,170)	-	(4,170)
	<u>24,763</u>	<u>42,176</u>	<u>1,267</u>	<u>68,206</u>
Deferred tax:				
Origination and reversal of temporary differences	5,224	1,403	(560)	6,067
	<u>29,987</u>	<u>43,579</u>	<u>707</u>	<u>74,273</u>
2010				
Current income tax:				
Current financial year	21,408	33,392	5,160	59,960
Deferred tax:				
Origination and reversal of temporary differences	3,394	(1)	1,517	4,910
	<u>24,802</u>	<u>33,391</u>	<u>6,677</u>	<u>64,870</u>

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NOTES TO THE FINANCIAL STATEMENTS

25 . TAXATION (CONT'D)

The income tax for the Shareholders' and General funds is calculated based on the tax rate of 25% (2010 : 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% (2010 : 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.

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:

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2011			
Profit before taxation (Note 35)	258,234	631,532	889,766
Taxation at Malaysian statutory tax rate of 25%	64,559	157,883	222,442
Tax effects in respect of:			
Tax rate differential on foreign inward and offshore insurance	438	(861)	(423)
Income not subject to tax	(397)	(157,566)	(157,963)
Expenses not deductible for tax purpose	2,303	1,295	3,598
Unabsorbed capital allowance	98	(44)	54
S110B tax relief	(19,252)	-	(19,252)
Over provision in prior years	(4,170)	-	(4,170)
Tax expense for the financial year	43,579	707	44,286

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

	Continuing operations RM'000	Dis- continued operations RM'000	Total RM'000
2010			
Profit before taxation (Note 35)	<u>175,485</u>	<u>32,975</u>	<u>208,460</u>
Taxation at Malaysian statutory tax rate of 25%	43,871	8,244	52,115
Tax effects in respect of:			
Tax rate differential on foreign inward and offshore insurance	-	(1,364)	(1,364)
Income not subject to tax	(129)	(1,328)	(1,457)
Expenses not deductible for tax purpose	1,275	203	1,478
Unabsorbed capital allowance	11	922	933
S110B tax relief	<u>(11,637)</u>	<u>-</u>	<u>(11,637)</u>
Tax expense for the financial year	<u>33,391</u>	<u>6,677</u>	<u>40,068</u>

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NOTES TO THE FINANCIAL STATEMENTS

26 . DIVIDENDS

	2011	2010
	RM'000	RM'000
Dividend in respect of the financial year:		
- Tax-exempt interim dividend of 0.04 sen per share (2010: 1.06 sen per share)	87	2,119
- Single-tier dividend in-specie of 381.78 sen per share (2010: 73.94 sen per share)	763,559	147,881
- Taxable interim dividend of 36 sen per share, payable on 1 July 2011	54,000	-
	<u>817,646</u>	<u>150,000</u>

The Directors do not recommend any final dividend to be paid for the financial year ended 30 June 2011.

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 (2010: 200,000,000) ordinary shares in issue during the financial year.

	2011	2010
	RM'000	RM'000
Profit for the financial year from continuing operations	214,655	142,094
Profit for the financial year from discontinued operations	630,825	26,298
	<u>845,480</u>	<u>168,392</u>

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NOTES TO THE FINANCIAL STATEMENTS

28 . CAPITAL COMMITMENTS

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

	2011	2010
	RM'000	RM'000
Authorised and contracted for:		
- Property and equipment	-	1,552
Authorised but not contracted for:		
Property and equipment	1,209	5,019
Intangible assets	2,313	13,069
	<u>3,522</u>	<u>18,088</u>
	<u>3,522</u>	<u>19,640</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

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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 HLFGB as disclosed in its financial statements ("HLFGB 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

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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 statement, 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
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 deposit 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	-	173,063	-
	<u>75</u>	<u>190,440</u>	<u>270</u>
Liabilities			
Payables	<u>408</u>	<u>3,872</u>	<u>54,735</u>

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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
2010			
Income			
Gross premium received/ receivable	172	4,379	15,342
Rental income	1,608	15,022	2,716
Interest income	-	5,293	2,272
	<u>1,780</u>	<u>24,694</u>	<u>20,330</u>
Expenditure			
Commission paid/payable	-	10,637	3,572
Management and professional fee paid/payable	1,194	1,505	640
Authorised depository fee	-	48	-
Brokerage fee	-	305	-
Credit card merchant fees	-	9,031	-
Training expenses	-	14	-
Rental and deposits paid	-	19	2,705
Service support fees	-	3,401	503
	<u>1,194</u>	<u>24,960</u>	<u>7,420</u>
Assets			
Receivables	63	797	4,660
Short term placements and and fixed deposits	-	36,645	-
Cash and cash equivalents	-	221,879	-
	<u>63</u>	<u>259,321</u>	<u>4,660</u>
Liabilities			
Payables	415	3,874	734

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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 of 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:

	2011	2010
	RM'000	RM'000
Wages, salaries and bonuses	5,697	3,543
Defined contribution retirement plan	712	437
Other employee benefits	374	226
Directors' fees	454	405
	<u>7,237</u>	<u>4,611</u>
Included in the total key management personnel are:		
Directors' remuneration (Note 24(b))	<u>2,583</u>	<u>1,983</u>

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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.

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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:

	2011	2010
	RM'000	RM'000
Eligible tier 1 capital		
- Share capital (paid up) (Note 11)	200,000	200,000
- Reserves, including retained earnings	2,054,837	2,129,005
Tier 2 capital	254,412	126,956
Amount deducted from capital	-	(6,484)
	<u>2,509,249</u>	<u>2,449,477</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2011 and 2010.

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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.

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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	Without DPF	Total
	RM'000	RM'000	RM'000
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>
2010			
Whole Life	674,600	38,340	712,940
Endowment	841,792	199,131	1,040,923
Term	1,175,636	345,866	1,521,502
Accident and health	7,500	12,396	19,896
Annuity	383,342	-	383,342
Others	64,226	383	64,609
	<u>3,147,096</u>	<u>596,116</u>	<u>3,743,212</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.

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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>

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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			
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
2010			
Mortality	+10%	42,030	32,664
Longevity	-10%	(42,349)	(33,708)
Discount rate	-0.5%	240,649	240,407
Expenses	+10%	39,403	39,403
Lapse and surrender	+10%	(26,891)	(26,674)
Lapse and surrender	-10%	28,477	28,254

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

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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.

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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	Past-due but not impaired	Total
	AAA	Investment grade			Not rated			
	RM'000	AA	A	BBB	RM'000	RM'000	RM'000	RM'000
2011								
HTM financial assests	153,176	52,078	-	-	-	-	-	205,254
AFS financial assets	917,885	1,339,248	443,132	146,290	669,443	851,830	-	4,367,828
HFT financial assets	21,026	51,148	18,433	-	2,024	376,415	-	469,046
Loan and receivables	-	38,902	-	-	676,744	-	-	715,646
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	-	-	-	-	86,531	-	-	86,531
Cash and cash equivalents	359,560	621,014	-	-	40,580	-	-	1,021,154
	<u>1,451,647</u>	<u>2,103,040</u>	<u>466,095</u>	<u>146,492</u>	<u>1,537,837</u>	<u>1,228,329</u>	<u>1,873</u>	<u>6,935,313</u>

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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	Past-due but not impaired	Total
	Investment grade							
	AAA	AA	A	BBB	Not rated	RM'000	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2010								
HTM financial assets	143,365	72,497	-	-	-	-	-	215,862
AFS financial assets	838,442	1,006,126	272,879	57,585	720,812	547,259	-	3,443,103
HFT financial assets	18,357	71,447	11,995	-	2,586	266,952	-	371,337
Loan and receivables	-	33,031	-	-	655,246	-	-	688,277
Derivatives	-	-	-	39	383	474	-	896
Reinsurance assets	-	813	3,484	-	19,426	-	-	23,723
Insurance receivables	-	-	-	-	31,524	-	1,371	32,895
Other receivables	-	-	-	-	62,008	-	-	62,008
Cash and cash equivalents	322,438	732,738	56,806	-	73,071	-	-	1,185,053
	<u>1,322,602</u>	<u>1,916,652</u>	<u>345,164</u>	<u>57,624</u>	<u>1,565,056</u>	<u>814,685</u>	<u>1,371</u>	<u>6,023,154</u>

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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:

	2011	2010
	RM'000	RM'000
Insurance receivables		
31 to 60 days	1,082	459
61 to 90 days	774	213
91 to 180 days	17	699
	<u>1,873</u>	<u>1,371</u>

Impaired financial assets

At 30 June 2011, there are impaired insurance receivables of RM492,000 (2010: RM492,000) and impaired AFS financial assets of RM36,764,000 (2010: RM16,812,000). 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 explain under Note 2(g)(i) to the financial statements. The Company records impairment allowance for insurance receivables and AFS financial assets in separate provision accounts.

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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	
	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July	492	511	16,812	16,812	17,304	17,323
(Reversal)/charge for the financial year	-	(19)	20,735	-	20,735	(19)
Realised for the financial year	-	-	(783)	-	(783)	-
At 30 June	492	492	36,764	16,812	37,256	17,304

(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's investible funds are substantially placed in fixed and call deposits and other money market instruments. The Company endeavors to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements.

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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
2011						
HTM financial assets	205,254	11,816	117,434	76,004	-	205,254
AFS financial assets	4,367,828	465,165	1,918,049	1,132,784	851,830	4,367,828
HFT financial assets	469,046	9,883	61,121	21,627	376,415	469,046
Loan and receivables	715,646	692,665	-	22,981	-	715,646
Derivative assets	303	219	-	-	84	303
Reinsurance assets	25,714	25,714	-	-	-	25,714
Insurance receivables	43,837	43,837	-	-	-	43,837
Other receivables	86,531	86,531	-	-	-	86,531
Cash and cash equivalents	1,021,154	1,021,154	-	-	-	1,021,154
Total financial assets	<u>6,935,313</u>	<u>2,356,984</u>	<u>2,096,604</u>	<u>1,253,396</u>	<u>1,228,329</u>	<u>6,935,313</u>

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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
2010						
HTM financial assets	215,862	-	97,341	118,521	-	215,862
AFS financial assets	3,443,103	130,872	1,495,472	1,269,500	547,259	3,443,103
HFT financial assets	371,337	4,043	76,165	24,177	266,952	371,337
Loan and receivables	688,277	663,296	2,000	22,981	-	688,277
Derivative assets	896	422	-	-	474	896
Reinsurance assets	23,723	23,723	-	-	-	23,723
Insurance receivables	32,895	32,895	-	-	-	32,895
Other receivables	62,008	62,008	-	-	-	62,008
Cash and cash equivalents	1,185,053	1,185,053	-	-	-	1,185,053
Total financial assets	6,023,154	2,102,312	1,670,978	1,435,179	814,685	6,023,154

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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	No maturity date 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	6,431,375	2,158,791	268,395	12,399,075	-	14,826,261

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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	No maturity date RM'000	Total RM'000
2010						
Insurance contract liabilities:*						
-With DPF	3,419,441	209,102	71,654	9,941,349	-	10,222,105
-Without DPF	1,668,533	1,158,745	209,083	884,564	-	2,252,392
Insurance payables	34,381	34,381	-	-	-	34,381
Other payables	571,414	571,414	-	-	-	571,414
Derivative liabilities	5,112	5,112	-	-	-	5,112
Total financial liabilities	<u>5,698,881</u>	<u>1,978,754</u>	<u>280,737</u>	<u>10,825,913</u>	<u>-</u>	<u>13,085,404</u>

* Excluding AFS reserve.

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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.

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

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.

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

	Singaporean Dollar RM '000	US Dollar RM '000	Australian Dollar RM '000	Euro RM '000	Hong Kong Dollar RM '000	Japanese Yen RM '000	Korean Won RM '000	Total RM '000
2011								
Financial assets	135,866	146,122	190,269	64,673	97,747	53,922	10,447	699,046
Insurance liabilities	-	-	(19,981)	-	-	-	-	(19,981)
	<u>135,866</u>	<u>146,122</u>	<u>170,288</u>	<u>64,673</u>	<u>97,747</u>	<u>53,922</u>	<u>10,447</u>	<u>679,065</u>
2010								
Financial assets	121,501	68,937	144,003	-	40,804	-	-	375,245
Insurance liabilities	-	-	(9,881)	-	-	-	-	(9,881)
	<u>121,501</u>	<u>68,937</u>	<u>134,122</u>	<u>-</u>	<u>40,804</u>	<u>-</u>	<u>-</u>	<u>365,364</u>

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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
2011		
Change in currency rates:		
+ 5%	(1,808)	(1,569)
- 5%	1,808	1,569

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

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(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 insurance subsidiary the flexibility to adjust the policyholders' bonus or dividends.

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 profit before tax	Impact on equity *
	RM '000	RM '000
2011		
Change in interest rate:		
+ 100 basis point	-	(1,116)
- 100 basis point	-	1,151

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NOTES TO THE FINANCIAL STATEMENTS

33 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(ii) Interest rate risk (cont'd)

* 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. In the analysis above, the impact arising from changes in interest rate risk to fixed income securities and liabilities of the Life fund of the insurance subsidiary are retained in the insurance contract liabilities.

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

(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 discussing the economic and market outlook, reviewing transactions and deliberating on equity allocation. The nature of the participating fund of the insurance subsidiary gives the insurance subsidiary the flexibility to adjust the policyholders' bonus or dividends.

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

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 profit before tax	Impact on equity *
	RM '000	RM '000
2011		
Change in equity market price:		
+ 20%	-	20,532
- 20%	-	(20,532)

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

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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. In the analysis above, the impact arising from changes in price risk to equity securities of the Life fund of the insurance subsidiary are retained in the insurance contract liabilities.

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.

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NOTES TO THE FINANCIAL STATEMENTS

34 . SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 18 June 2010, HLA Holdings Sdn Bhd ("HLAH"), the holding company of Hong Leong Assurance Berhad ("HLA"), and HLA, 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 ("Strategic Partnership").

The Strategic Partnership involved the following:

- (i) The 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 representing 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 ("Non-Life Business Merger"); and
- (ii) Upon completion of the Non-Life Business Merger, HLAH disposed 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 ("Disposal").

The Non-Life Business Merger and 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 holds 30% of the equity interest in MSIM.

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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

	Shareholders' and General Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2011					
Assets					
Property, plant and equipment	2,608	91,718	-	-	94,326
Intangible assets	-	1,968	-	-	1,968
Investment properties	-	231,680	-	-	231,680
Financial investments	214,627	5,074,101	469,046	-	5,757,774
- HTM financial assets	-	205,254	-	-	205,254
- AFS financial assets	214,627	4,153,201	-	-	4,367,828
- HFT financial assets	-	-	469,046	-	469,046
- Loans and receivables	-	715,646	-	-	715,646
Derivative assets	25	274	4	-	303
Reinsurance assets	-	25,714	-	-	25,714
Insurance receivables	-	43,837	-	-	43,837
Other receivables	84,257	64,703	3,696	(66,125)	86,531
Non-current assets held-for-sale	55	-	-	-	55
Cash and cash equivalents	306,911	608,936	105,307	-	1,021,154
Total assets	608,483	6,142,931	578,053	(66,125)	7,263,342

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

	Shareholders' and General Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2011 (cont'd)					
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	339,735	-	-	-	339,735
Total equity	539,735	-	-	-	539,735
Insurance contract liabilities	-	5,267,947	570,987	-	5,838,934
Deferred tax liabilities	4,084	23,926	4,824	-	32,834
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	68,748	6,142,931	578,053	(66,125)	6,723,607
Total equity, policyholders' fund and liabilities	608,483	6,142,931	578,053	(66,125)	7,263,342

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

	Shareholders' and General Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2010					
Assets					
Property, plant and equipment	3,247	83,939	-	-	87,186
Intangible assets	1	2,517	-	-	2,518
Investment properties	-	231,680	-	-	231,680
Financial investments	73,977	4,273,265	371,337	-	4,718,579
- HTM financial assets	-	215,862	-	-	215,862
- AFS financial assets	73,977	3,369,126	-	-	3,443,103
- HFT financial assets	-	-	371,337	-	371,337
- Loans and receivables	-	688,277	-	-	688,277
Derivative assets	-	896	-	-	896
Reinsurance assets	-	23,723	-	-	23,723
Insurance receivables	-	32,895	-	-	32,895
Other receivables	188,457	45,083	3,476	(175,008)	62,008
Non-current assets held-for-sale	578,780	-	-	-	578,780
Cash and cash equivalents	235,026	849,044	100,983	-	1,185,053
Total assets	1,079,488	5,543,042	475,796	(175,008)	6,923,318

HONG LEONG ASSURANCE BERHAD

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

	Shareholders' and General Fund	Life Fund	Investment -linked Fund	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2010 (cont'd)					
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	302,669	-	-	-	302,669
Total equity	502,669	-	-	-	502,669
Insurance contract liabilities	-	4,739,275	471,525	-	5,210,800
Deferred tax liabilities	164	14,887	1,443	-	16,494
Tax payables	25,550	5,791	400	-	31,741
Insurance payables	-	34,381	-	-	34,381
Other payables	398	743,596	2,428	(175,008)	571,414
Derivative liabilities	-	5,112	-	-	5,112
Liabilities directly associated with assets classified as held-for-sale	550,707	-	-	-	550,707
Total policyholders' fund and liabilities	576,819	5,543,042	475,796	(175,008)	6,420,649
Total equity, policyholders' fund and liabilities	1,079,488	5,543,042	475,796	(175,008)	6,923,318

HONG LEONG ASSURANCE BERHAD

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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 operations		Total	
	Shareholders' Fund		Life Fund		Investment-linked Fund		General Fund		2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	16,343	5,254	1,500,158	1,230,127	107,343	94,949	82,111	334,408	1,705,955	1,664,738
Gross earned premiums	-	-	1,219,035	989,626	86,970	81,747	79,541	317,956	1,385,546	1,389,329
Premiums ceded to reinsurers	-	-	(62,541)	(55,315)	-	-	(26,119)	(98,173)	(88,660)	(153,488)
Net earned premiums	-	-	1,156,494	934,311	86,970	81,747	53,422	219,783	1,296,886	1,235,841
Investment income	16,343	5,254	281,123	240,501	20,373	13,202	2,570	16,452	320,409	275,409
Realised gains/(losses)	3,192	(2,122)	47,611	37,885	26,001	10,858	426	9,770	77,230	56,391
Fair value (losses)/gains	(1,159)	-	(16,823)	6,223	42,256	38,585	(1,477)	79	22,797	44,887
Fees and commission income	-	-	3,474	2,551	-	-	5,818	22,809	9,292	25,360
Other operating income-net	1,569	-	29,275	-	(90)	-	-	585	30,754	585
Other revenue	19,945	3,132	344,660	287,160	88,540	62,645	7,337	49,695	460,482	402,632

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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 operations		Total	
	Shareholders' Fund		Life Fund		Investment-linked Fund		General Fund		2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross benefits and claims paid	-	-	(548,852)	(428,074)	(63,249)	(29,449)	(42,748)	(187,235)	(654,849)	(644,758)
Claims ceded to reinsurers	-	-	49,984	42,964	-	-	12,578	68,285	62,562	111,249
Gross change to contract liabilities	-	-	(411,100)	(370,293)	(99,462)	(105,585)	13,323	(28,123)	(497,239)	(504,001)
Change in contract liabilities to	-	-	(407)	3,803	-	-	(13,949)	12,207	(14,356)	16,010
Net claims	-	-	(910,375)	(751,600)	(162,711)	(135,034)	(30,796)	(134,866)	(1,103,882)	(1,021,500)
Fees and commission expense	(248)	(194)	(238,028)	(189,515)	(6,515)	(5,071)	(12,586)	(49,277)	(257,377)	(244,057)
Management expenses	(2,463)	(2,945)	(88,048)	(72,092)	-	-	(15,646)	(52,360)	(106,157)	(127,397)
Other operating expenses-net	-	492	-	(12,749)	-	-	(38)	-	(38)	(12,257)
Other expenses	(2,711)	(2,647)	(326,076)	(274,356)	(6,515)	(5,071)	(28,270)	(101,637)	(363,572)	(383,711)

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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 operations		Total	
	Shareholders' Fund		Life Fund		Investment-linked Fund		General Fund		2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Profit from continuing operations/discontinued operations	17,234	485	264,703	195,515	6,284	4,287	1,693	32,975	289,914	233,262
Gain on disposal of general insurance, net	-	-	-	-	-	-	629,839	-	629,839	-
Inter-fund transfer:- From Life Fund to Shareholders' Fund	241,000	175,000	(241,000)	(175,000)	-	-	-	-	-	-
Profit before taxation	258,234	175,485	23,703	20,515	6,284	4,287	631,532	32,975	919,753	233,262
Taxation	(43,579)	(33,391)	(23,703)	(20,515)	(6,284)	(4,287)	(707)	(6,677)	(74,273)	(64,870)
Profit for the financial year	214,655	142,094	-	-	-	-	630,825	26,298	845,480	168,392

HONG LEONG ASSURANCE BERHAD

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(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 26 to 144 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") so as to give a true and fair view of the state of affairs of the Company as at 30 June 2011 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
7 September 2011

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 26 to 144 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 7 September 2011)

Before me

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 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 2011, and the statements of income, other comprehensive income, changes in equity and cash flow for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 26 to 144.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements that give true and fair view in accordance with the Malaysian Accounting Standards Board ("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") and the provisions of the Companies Act, 1965 and the Insurance Act, 1996, 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.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE FINANCIAL STATEMENTS (CONT'D)

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, and the provisions of the Companies Act, 1965 and the Insurance Act, 1996 so as to give a true and fair view of the financial position of the Company as of 30 June 2011 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. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur
7 September 2011