Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

CONTENTS PAGE

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report together with the audited financial statements of the Company for the financial year ended 30 June 2012.

PRINCIPAL ACTIVITIES

The Company is principally engaged in managing Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of this activity during the financial year.

FINANCIAL RESULTS

	RM'000
Net loss for the financial year	(1,143)

DIVIDENDS

No dividends have been paid or declared by the Company since end of the previous financial year.

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

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of last report are as follows:

YBhg Tan Sri A. Razak bin Ramli	Chairman, Independent Non-Executive Director
Ms Loh Guat Lan	Non-Independent Non-Executive Director
Mr Choong Yee How	Non-Independent Non-Executive Director
Encik Mustapha bin Hamat	Independent Non-Executive Director
Mr Toshiyuki Tsukada	Non-Independent Non-Executive Director
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	Independent Non-Executive Director *(Appointed on 3 January 2012)*
YM Raja Teh Maimunah Binti Raja Abdul Aziz	Non-Independent Non-Executive Director *(Appointed on 16 January 2012)*
Puan Hijah Arifakh binti Othman	Non-Independent Non-Executive Director *(Resigned on 19 October 2011)*

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

In accordance with Article 119 of the Company's Articles of Association, YBhg Tan Sri A. Razak bin Ramli and Ms Loh Guat Lan retire by rotation from the Board and being eligible, offer themselves for re-election.

In accordance with Article 94 of the Company's Articles of Association, YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin and YM Raja Teh Maimunah binti Raja Abdul Aziz retire from the Board and being eligible, offers themselves for re-election.

None of the Directors holding office at the end of the financial year had any beneficial interest in ordinary shares, options over shares and debentures of the Company and/or its related corporations during the financial year ended 30 June 2012 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for Mr Choong Yee How and Ms Loh Guat Lan, whose direct interests in the shares and options over shares of related corporations, are as follows:

		Number of ordinary shares /*shares issued or to be issued or acquired arising from the exercise of options			
	Nominal value per share	**As at 1 July 2011**	**Acquired**	**Sold/ Lapsed/ Exercised**	**As at 30 June 2012**
Interest of Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	RM1.00	960,000	2,032,000 (1)	-	2,992,000
	RM1.00	5,840,000*	3,500,000*	(1,120,000) (2)	6,188,000*
				(2,032,000) (1)	
Interest of Ms Loh Guat Lan in:					
Hong Leong Financial Group Berhad	RM1.00	-	150,000 (1)	(150,000)	-
	RM1.00	500,000*	-	(150,000) (1)	350,000*

Note:

(1) Exercise of share options.
(2) Share options lapsed.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in note 21 to the financial statements or the 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.

Neither at the end of the financial year, nor at any time 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 of Hong Leong Financial Group Berhad and Hong Leong Assurance Berhad, the related corporations of the Company.

CORPORATE GOVERNANCE

The Company has complied with the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under BNM/RH/GL/004-1 on Guidelines on Directorship for Takaful Operators.

Board of Directors/Chief Executive Officer

The Board of Directors of the Company ("Board") assumes responsibility for effective stewardship and control of the Company and has established terms of reference to assist in the discharge of this responsibility.

The roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's business; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM, from time to time.

The Chief Executive Officer of the Company is responsible for implementing the policies and decisions of the Board, overseeing the day-to-day operations, setting the plan and direction, benchmark and targets for the Company, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing Shareholders' wealth.

The present Board comprises the Chairman who is an Independent Non-Executive Director, four Non-Independent Non-Executive Directors and two Independent Non-Executive Directors. In accordance with the Guidelines on Directorships for Takaful Operators, all Directors are appointed to the Board after approval had been obtained from BNM.

During the financial year ended 30 June 2012, seven (7) Board Meetings were held and the attendance of the Directors was as follows:

CORPORATE GOVERNANCE (CONTINUED)

Board of Directors/Chief Executive Officer (continued)

Directors	Attendance
YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)	7/7
Mr Choong Yee How (Non-Independent Non-Executive Director)	7/7
Encik Mustapha bin Hamat (Independent Non-Executive Director)	7/7
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	7/7
Mr Toshiyuki Tsukada (Non-Independent Non-Executive Director)	6/7
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin *(Appointed on 3 January 2012)* (Independent Non-Executive Director)	3/3
YM Raja Teh Maimunah binti Raja Abdul Aziz *(Appointed on 16 January 2012)* (Non-Independent Non-Executive Director)	2/3
Puan Hijah Arifakh binti Othman *(Resigned on 19 October 2011)* (Non-Independent Non-Executive Director)	1/3

Chief Executive Officer

Encik Mohd Fauzi bin Yaakub was appointed as the CEO of the Company with effect from 15 May 2012. Bank Negara Malaysia had, via its letter dated 24 April 2012 granted its approval for the appointment.

Supply of Information

Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Company and management's proposal which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as independent professional advice, including the Internal Auditors.

Re-election

At the annual general meeting, all the Directors are required to submit themselves for election. At subsequent annual general meetings, one third (1/3) of the Directors shall retire from office.

Nominating Committee ("NC")

The members of the NC are as follows:

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Non-Executive Director)
YM Raja Teh Maimunah binti Raja Abdul Aziz *(Appointed on 16 January 2012)*	(Non-Independent Non-Executive Director)
Puan Hijah Arifakh binti Othman *(Resigned on 19 October 2011)*	(Non-Independent Non-Executive Director)

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

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- Review and recommend to the Board all Board appointments and re-appointments and removals including the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors, and mix of skills and other core competencies required.
- 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.
- 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.
- Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2012, two (2) NC meetings were held and the attendance of the members was as follows:

Members	Attendance
YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)	2/2
Mr Choong Yee How (Non-Independent Non-Executive Director)	2/2
Encik Mustapha bin Hamat (Independent Non-Executive Director)	2/2
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	2/2
YM Raja Teh Maimunah binti Raja Abdul Aziz *(Appointed on 16 January 2012)* (Non-Independent Non-Executive Director)	0/1
Puan Hijah Arifakh binti Othman *(Resigned on 19 October 2011)* (Non-Independent Non-Executive Director)	1/1

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Committee ("RC")

The members of the RC are as follows:

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)

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

- Recommend to the Board the framework governing the remuneration of the:
    - ❖ Directors;
    - ❖ Chief Executive Officer; and
    - ❖ Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.
- Review and recommend to the Board the remuneration of Shariah Committee members.

During the financial year ended 30 June 2012, one (1) RC meeting was held and the meeting was attended by all the members.

The Directors fees are set out in Note 21 to the financial statements.

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC")

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli	(Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin *(Appointed on 3 January 2012)*	(Independent Non-Executive Director)
Ms Loh Guat Lan *(Resigned on 3 January 2012)*	(Non-Independent Non-Executive Director)

During the financial year ended 30 June 2012, seven (7) BARMC meetings were held and the attendance of the members was as follows:

Members	Attendance
Encik Mustapha bin Hamat (Chairman, Independent Non-Executive Director)	7/7
YBhg Tan Sri A. Razak bin Ramli (Independent Non-Executive Director)	7/7
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin *(Appointed on 3 January 2012)* (Independent Non-Executive Director)	3/3
Ms Loh Guat Lan *(Resigned on 3 January 2012)* (Non-Independent Non-Executive Director)	4/4

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

- To review the audit plan, audit charter and budget of the Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to achieve their audit objectives;

- To review the overall internal management system, in particular, financial status of the Company, its internal controls in critical areas of operations, risks and implications of the internal audit findings and recommendations;

- To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Chief Internal Auditor and senior officers of the internal audit functions;

- To review with the external auditors, the scope of their audit and audit reports, including their findings, issues or reservations arising from the interim and financial audits and any action to be taken by management;

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC") (continued)

- To consider the provision of non-audit services by the external auditors;

- To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors and to review and assess fees paid to the external auditors for their audit and non-audit services;

- To review the Chairman's statement, corporate governance disclosures in the Directors' Report, interim financial reports and all representation letters by management in relation to the financial audit of the Company;

- To review related party transactions and conflict of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity;

- To ensure prompt publication of annual accounts of the Company. The Board is duty bound to ensure that accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with frequent reviews of the adequacy of provisions and to ensure supervisory issues raised by Bank Negara Malaysia are resolved in a timely manner;

- To report and recommend to the Board measures:
  (a) to identify all critical business risks faced by the Company;
  (b) to improve risk management strategies and policies proposed by management; and
  (c) to monitor and evaluate that risks have been managed effectively.

- To review the implementation of the Risk Management Framework and risk management activities and reports; and

- Other functions as may be determined by the Board.

Internal Audit

The 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 action taken by management are reported to and monitored by the BARMC.

Corporate Independence

The Company has complied with BNM/RH/GL/004-7 on Guidelines On Related Party Transactions For Takaful Operators. 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 25 to the financial statements.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Financial Reporting

The Board is responsible for ensuring that the accounting records of the Company are properly maintained. Financial and management reports of the Company are reviewed at Board meetings.

Internal Controls and Operational Risk Management

The Board holds 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 and financial risks. The authority limits and system of internal controls are regularly reviewed to ensure continuous improvement in the control environment.

Management Accountability

The Company operates in an organisational structure and control environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment.

Relationship with Auditors

External auditors are appointed based on the recommendation by the BARMC. The BARMC also determines the remuneration of external auditors. The external auditors meet with the BARMC to:

(a) Present the scope of audit before the commencement of audit; and

(b) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION REGARDING THE COMPANY

(I) As at the end of the financial year

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps:

(i) to ascertain that there was adequate provision for incurred claims, including incurred but not reported claims ("IBNR");

(ii) to ascertain proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(iii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(b) In the opinion of the Directors, the results of the operations of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, except as disclosed in Note 2.5 to the financial statement.

(II) As at the end of the financial year to the date of this report

(a) The Directors are not aware of any circumstances:

(i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;

(ii) which would render the values attributed to current assets in the financial statements misleading; and

(iii) which had arisen which would render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.

(b) In the opinion of the Directors:

(i) the results of the operations of the Company for the financial year ended 30 June 2012 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and

(ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may 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 contract of takaful underwritten in the ordinary course of business of the Company).

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY (CONTINUED)

(III) As at the date of this report

(a) There are no charges on the assets of the Company which had arisen since the end of the financial year to secure the liabilities of any other person;

(b) There are no contingent liabilities which had arisen since the end of the financial year; and

(c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

AUDITORS

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

Signed on behalf of the Board, in accordance with, a resolution of the Directors dated 24 September 2012.

MUSTAPHA BIN HAMAT
DIRECTOR

CHOONG YEE HOW
DIRECTOR

Kuala Lumpur

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

We, Mustapha bin Hamat and Choong Yee How, being two of the Directors of Hong Leong MSIG Takaful Berhad, state that, in the opinion of the Directors, the financial statements set on pages 17 to 109 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2012 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984 and comply with the provisions of the Companies Act, 1965.

On behalf of the Board,

MUSTAPHA BIN HAMAT
DIRECTOR

CHOONG YEE HOW
DIRECTOR

Kuala Lumpur
24 September 2012

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

I, Mohd Fauzi Bin Yaakub, the Officer primarily responsible for the financial management of Hong Leong MSIG Takaful Berhad, do solemnly and sincerely declare that the financial statements for the financial year ended 30 June 2012 set out on pages 17 to 109 are, in my opinion, 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 Mohd Fauzi Bin Yaakub)
at Kuala Lumpur in)
Wilayah Persekutuan on 24 September 2012)
)

Mohd Fauzi Bin Yaakub

Before me,

PESURUHJAYA SUMPAH
No: W 594
P. VALLIAMAH
MALAYSIA

Lot 112, Tingkat Satu,
Wisma MPL, Jalan Raja Chulan
50200 Kuala Lumpur.

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORT OF THE SHARIAH COMMITTEE

CORPORATE GOVERNANCE

Shariah Committee ("SC")

The members of the SAC are as follows:

Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	(Chairman)
Asst. Prof. Dr. Uzaimah Ibrahim	(Member)
Prof. Dr. Muhamad Humayon Abbas Dar	(Member)
Prof. Dr. Malik Muhammed Mahmood Al-Awan	(Member)
Assoc. Prof. Dr. Asmadi bin Mohamed Naim *(Appointed on 23 August 2011)*	(Member)

During the financial year ended 30 June 2012, eight SC meetings were held and the attendance of the members was as follows:

Members	Attendance
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani (Chairman)	8/8
Assoc. Prof. Dr. Asmadi bin Mohamed Naim	7/7
Asst. Prof. Dr. Uzaimah Ibrahim	7/8
Prof. Dr. Muhamad Humayon Abbas Dar	7/8
Prof. Dr. Malik Muhammed Mahmood Al-Awan	8/8

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORT OF THE SHARIAH ADVISORY COMMITTEE

In the name of Allah, The Beneficent, The Merciful.

To the Shareholders of Hong Leong MSIG Takaful Berhad,

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Company during the financial year ended 30 June 2012. We have also conducted our review to form an opinion as to whether the Company has complied with Shariah rules and principles and with the specific fatwas, rulings and guidelines issued by us.

The Company's management is responsible for ensuring that the Company conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion and report, based on our review of the principles and contracts in relation to transactions and applications of the Company.

We performed our review on the basis of information and explanations provided to us which are deemed essential together with sufficient evidence to give reasonable assurance that the Company has not violated Shariah rules and principles.

In our opinion:

a) the contracts, transactions and dealings entered into by the Company during the financial year ended 30 June 2012 as presented and deliberated to us are in compliance with the Shariah rules and principles;

b) the main sources and investments of the Company disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;

We beg Allah the Almighty to grant us all the success and straight-forwardness.

On behalf of the Shariah Committee:

ASSOC. PROF. DR. AB. MUMIN AB. GHANI
Chairman
Shariah Committee

ASST. PROF. DR. UZAIMAH IBRAHIM
Member
Shariah Committee

Kuala Lumpur

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong MSIG Takaful Berhad, which comprise the statement of financial position as at 30 June 2012, and the statements of comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 109.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984 and comply with the Companies Act, 1965 and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, 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.

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 issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984 and comply with the Companies Act, 1965 so as to give a true and fair value of the financial position of the Company as of 30 June 2012 and of its financial performance and cash flows for the financial year then ended.

pwc

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)
(Company No. 738090 M)

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	MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. AF:1146)	(No. 2025/03/14 (J))
Chartered Accountants	Chartered Accountant

Kuala Lumpur
24 September 2012

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 RM'000	Restated 2011 RM'000	Restated 2010 RM'000
ASSETS				
SHAREHOLDERS' FUND ASSETS				
Property and equipment	3	1,422	965	991
Intangible assets	4	217	490	977
Financial assets - available-for-sale	5	67,146	69,597	71,366
Other receivables	9	557	1,222	750
Deferred tax assets	14	274	-	-
Current tax recoverable		-	80	-
Cash and cash equivalents	10	29,025	28,714	24,791
Total Shareholders' fund assets		98,641	101,068	98,875
Total General Takaful fund assets		101,920	64,096	18,725
Total Family Takaful fund assets		160,771	167,157	268,442
TOTAL ASSETS		361,332	332,321	386,042
EQUITIES AND LIABILITIES				
Share Capital	15	100,000	100,000	100,000
Accumulated losses		(8,541)	(7,398)	(6,028)
Fair value reserve		2,020	1,989	431
TOTAL EQUITY		93,479	94,591	94,403
LIABILITIES				
SHAREHOLDERS' FUND LIABILITIES				
Other payables	13	7,951	8,472	4,580
Due to related companies	25	1,497	919	346
Deferred tax liabilities	14	-	373	144
Current tax liabilities		1,694	-	-
Deferred wakalah income		5,614	3,163	991
Total Shareholders' fund liabilities		16,756	12,927	6,061
Total General Takaful fund liabilities		91,316	57,646	17,136
Total Family Takaful fund liabilities		159,781	167,157	268,442
TOTAL LIABILITIES		267,853	237,730	291,639
TOTAL EQUITY AND LIABILITIES		361,332	332,321	386,042

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

	Note	2012	Restated 2011
		RM'000	RM'000
Operating revenue	16	137,050	92,753
Shareholders' fund			
Share of investment profit from:			
Family takaful		198	151
General takaful		54	20
Wakalah fee		33,166	18,952
Investment income	17	3,663	3,720
Realised gains	18	815	-
Fair value losses	19	(118)	(365)
Other operating income	20	295	166
Net income		38,073	22,644
Commission paid		(18,241)	(11,003)
Management expenses	21	(18,927)	(13,047)
Other operating expenses	20	(1,013)	-
Other expenses		(38,181)	(24,050)
Loss before taxation		(108)	(1,406)
Zakat		(90)	(254)
Taxation	22	(945)	290
Net loss for the financial year		(1,143)	(1,370)
Other comprehensive income for the financial year			
Fair value change on available-for-sale financial assets:			
- Gross fair value change		41	2,077
- Deferred taxation (Note 14)		(10)	(519)
- Net fair value change		31	1,558
Total comprehensive (loss)/income for the financial year		(1,112)	188

The accompanying notes form an integral part of the financial statements

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

GENERAL TAKAFUL STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012	Restated 2011	Restated 2010
		RM'000	RM'000	RM'000
ASSETS				
Financial assets - available-for-sale	5	8,530	2,265	2,276
Loan and receivables	6	358	345	337
Retakaful assets	7	51,809	25,402	5,819
Takaful receivables	8	17,057	12,888	8,197
Other receivables	9	314	3,862	1,048
Deferred tax assets	14	522	1,402	-
Current tax recoverable		1,793	953	-
Cash and cash equivalents	10	21,537	16,979	1,048
TOTAL ASSETS		101,920	64,096	18,725
LIABILITIES				
Takaful contract liabilities	11(b)	86,418	44,006	11,631
Takaful payables	12	15,229	19,646	6,419
Other payables	13	273	444	675
TOTAL LIABILITIES		101,920	64,096	18,725

Note:
Qardh payable included in takaful contract liabilities of RM10,604,000 (2011:RM6,450,000 2010:RM1,589,000) has been offset against the qardh receivable of the Shareholders' fund of an equivalent amount in arriving at the Company's statement of financial position on page 17.

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

	Note	2012	Restated 2011
		RM'000	RM'000
Gross contributions		72,824	50,592
Contributions ceded to retakaful operators		(46,464)	(31,134)
Net contributions		26,360	19,458
Change in unearned contribution reserve		(6,042)	(5,712)
Net earned contributions		20,318	13,746
Investment income	17	501	184
Realised gains	18	2	-
Commission income		9,683	8,041
Other operating income	20	3,235	-
Net income		13,421	8,225
Gross claims paid		(9,547)	(3,701)
Claims ceded to retakaful operators		3,765	1,819
Gross change to certificate liabilities		(22,165)	(16,615)
Change in certificate liabilities ceded to retakaful operators		13,349	10,130
Net claims		(14,598)	(8,367)
Wakalah fee expenses		(21,303)	(13,631)
Other operating expenses	20	(32)	(5,650)
Other expenses		(21,335)	(19,281)
Deficit before taxation		(2,194)	(5,677)
Taxation	22	(856)	1,402
Deficit after taxation		(3,050)	(4,275)

The accompanying notes form an integral part of the financial statements

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

FAMILY TAKAFUL STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 RM'000	2011 RM'000
ASSETS			
Financial assets - available-for-sale	5	32,054	23,645
Financial assets - fair value through profit and loss	5	57,248	82,167
Loan and receivables	6	10,586	5,378
Retakaful assets	7	19,257	33,072
Takaful receivables	8	3,627	4,459
Other receivables	9	1,676	7
Cash and cash equivalents	10	36,323	18,429
TOTAL ASSETS		160,771	167,157
LIABILITIES			
Takaful contract liabilities	11(a)	149,624	158,031
Takaful payables	12	5,917	3,771
Other payables	13	4,179	4,593
Deferred tax liabilities	14	392	344
Current tax liabilities		659	418
TOTAL LIABILITIES		160,771	167,157

Note:
Qardh payable included in takaful contract liabilities of RM990,000 (2011:nil) has been offset against the qardh receivable of the Shareholders' fund of an equivalent amount in arriving at the Company's statement of financial position on page 17.

The accompanying notes form an integral part of the financial statements

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

	Note	2012 RM'000	2011 RM'000
Gross contributions		55,728	35,130
Contributions ceded to retakaful operators		(11,037)	(8,391)
Net earned contributions		44,691	26,739
Investment income	17	4,334	3,127
Realised gains	18	707	1,983
Fair value gains on financial assets designated at fair value through profit	19	10	8,000
Net income		5,051	13,110
Gross benefits and claims paid		(34,429)	(157,177)
Claims ceded to retakaful operators		4,000	5,637
Gross change to certificate liabilities		6,673	109,258
Change in certificate liabilities ceded to retakaful operators		(13,815)	12,156
Net benefits and claims paid		(37,571)	(30,126)
Wakalah fee expense		(14,315)	(7,492)
Other operating expenses	20	(313)	(165)
Other expenses		(14,628)	(7,657)
(Deficit)/surplus before taxation		(2,457)	2,066
Taxation	22	(504)	(885)
(Deficit)/surplus after taxation		(2,961)	1,181

The accompanying notes form an integral part of the financial statements

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

	Issued and fully paid ordinary shares of RM1 each		Non-distributable		
	Number of shares	Nominal Value RM'000	AFS reserve RM'000	Accumulated losses RM'000	Total RM'000
At 1 July 2011					
As previously stated	100,000	100,000	1,989	(5,944)	96,045
Effects of adoption of BNM Guidelines (Note 2.5(i))	-	-	-	(1,454)	(1,454)
As restated	100,000	100,000	1,989	(7,398)	94,591
Total comprehensive income / (loss) for the financial year	-	-	31	(1,143)	(1,112)
At 30 June 2012	100,000	100,000	2,020	(8,541)	93,479
At 1 July 2010					
As previously stated	100,000	100,000	431	(5,284)	95,147
Effects of adoption of BNM Guidelines (Note 2.5(i))	-	-	-	(744)	(744)
As restated	100,000	100,000	431	(6,028)	94,403
Total comprehensive income / (loss) for the financial year	-	-	1,558	(1,370)	188
At 30 June 2011	100,000	100,000	1,989	(7,398)	94,591

The accompanying notes form an integral part of the financial statements

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCAL YEAR ENDED 30 JUNE 2012

	2012 RM'000	Restated 2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the financial year	(1,143)	(1,370)
Adjustments for:		
(Write back)/impairment of takaful receivables	(2,525)	5,650
Depreciation of property and equipment	307	355
Amortisation of intangible assets	333	512
Write off of property and equipment	320	-
Gain on disposal of investments	(1,524)	(1,983)
Unrealised fair value gain on financial assets	(10)	(8,000)
Accretion of discounts - net	(178)	(311)
Profits and dividend income	(8,572)	(6,891)
Allowance for diminution in value of investments	118	365
Taxation expense	2,305	(807)
Profit from operations before changes in operating assets and liabilities	(10,569)	(12,480)
Proceeds from disposal of investments	36,323	1,395
Maturity of investments	36,967	147,168
Purchase of investments	(58,456)	(8,300)
Increase in deferred wakalah fee	2,451	2,172
Decrease in Family Takaful contract liabilities (excluding available-for-sale reserve)	(8,644)	(108,077)
Increase in General Takaful contract liabilities (excluding available-for-sale reserve)	42,369	32,366
Increase in loan and receivables	(5,180)	(4,956)
Increase in retakaful assets	(12,592)	(31,739)
Increase in takaful receivables	(812)	(13,115)
Increase in other receivables	(2,482)	(8,186)
(Decrease)/increase in takaful payables	(2,271)	15,491
(Decrease)/increase in other payables	(1,106)	7,058
Increase in amount due to related companies	578	573
	16,576	19,370
Tax paid	(992)	(1,075)
Profit received	8,074	6,750
Dividends received	249	164
Net cash generated from operating activities	23,907	25,209

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCAL YEAR ENDED 30 JUNE 2012 (CONTINUED)

	2012 RM'000	2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(60)	(25)
Purchase of property and equipment	(1,084)	(329)
Net cash used in investing activities	(1,144)	(354)
Net increase in cash and cash equivalents	22,763	24,855
Cash and cash equivalents at beginning of financial year	64,122	39,267
Cash and cash equivalents at end of the financial year	86,885	64,122
Cash and cash equivalents comprise:		
Shareholders' fund	29,025	28,714
General fund	21,537	16,979
Family fund	36,323	18,429
	86,885	64,122

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

1 CORPORATE INFORMATION

The Company is engaged principally in the managing of Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 8, Wisma Hong Leong, 18, Jalan Perak, 50450 Kuala Lumpur. The principal place of business of the Company is located at Level 5, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya, Selangor.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 September 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements and to all the financial years presented.

Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this significant accounting policies and comply with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984, and comply with Companies Act, 1965.

The preparation of financial statements in conformity with Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984 requires the use of certain critical accounting 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. It also requires Directors to exercise their judgment in the process of applying the Company’s accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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 measured reliably. The carrying amount of the replaced part is derecognised.

Repairs and maintenance costs are charged to profit or loss during the financial year in which they are incurred.

Property and equipment are depreciated on the straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives, summarised as follows:

Computer equipment	5 years
Furniture & fittings, office equipment and renovation	5 years
Motor vehicles	4 years

Work-in-progress is carried at cost and is depreciated when the asset is available for use.

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each date of statement of financial position.

At each date of 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 2.2 (f) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in the profit or loss.

(b) Intangible assets - computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Intangible assets - computer software (continued)

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of 5 years.

(c) Financial Instruments

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

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

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

(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"), 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(1) 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.

   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. All financial assets held in the invesment-linked funds are designated at fair value through profit or loss at inception

   Financial assets classified as FVTPL are subsequently measured at their fair values with fair value adjustments and realized gains or losses recognised in profit or loss of the respective funds. 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.

(2) 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 takaful funds, where such fair value gains or losses are reported as a separate component of the takaful contracts liabilities. When these assets are sold or impaired, the accumulated fair value adjustments previously recognised in equity or takaful contract liabilities are included in the profit or loss as net realised gains or losses of the respective funds.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(3) 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 HTM are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Gains and losses are recognised in profit or loss of respective funds when HTM financial assets are derecognised or impaired.

(4) LAR financial assets

LAR financial assets are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets 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. Gains and losses are recognised in profit or loss of respective funds when the financial assets are derecognised or impaired, as well as through the amortisation process.

<u>Financial liabilities</u>

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, or financial liabilities that are specifically designated into this category upon initial recognition.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(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 of the respective funds.

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 of the respective funds.

(d) Fair value of financial instruments

The fair values of 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.

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

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

(e) Qardh receivable

Qardh receivable is stated at cost and at each date of the statement of financial position, the company assesses whether there is any indication of impairment. If such indication exists, 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, as set out in Note 2.2(f) on impairment of assets.

As required by the Guidelines issued by BNM, the qardh receivable in the Shareholders' fund is offset against the qardh payable in the Takaful funds in the Company's financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment

(i) Financial assets, excluding takaful 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 yield. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss of the respective funds.

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 and 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 by adjusting the allowance account. The amount of the reversal is recognised in profit or loss of the respective funds.

(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 are recognised in profit or loss of the respective funds and shall not be reversed.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment (continued)

(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 AFS 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 takaful contract liabilities, is transferred from equity through the statement of comprehensive income or from takaful contract liabilities to profit or loss of the respective funds.

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 the profit or loss.

(ii) Non-financial assets

At each date of statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. Impairment is measured by comparing 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 by reference to discounted cash flows.

An impairment loss is charged to profit or loss of the respective funds immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. A reversal of such impairment loss is recognised in profit or loss of respective funds immediately.

(g) Takaful receivables

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

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in profit or loss of respective takaful funds. The Company gathers the objective evidence that a takaful receivables is impaired using the same process adopted for financial assets at amortised costs. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2 (f).

Takaful receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(c)(iii) have been met.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and deposits held at call with Islamic financial institutions with original maturities of three month or less. It excludes deposits which are held for investment purpose. The company classifies the the cash flow for the purchase and disposal of investment in financial asset in its operating cash flows as the purchases are funded from the cash flow associated with the origination of Takaful contracts, net of the cash flow for payment of Takaful benefits and claims benefits.

(i) Taxation

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the statement of financial position method, providing for temporary differences arising between the carrying amounts of assets and liabilities for tax purpose. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the statement of financial position date are used to determine deferred tax.

(j) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Advisory Committee. Zakat provision is calculated based on 2.5% of net asset method. Zakat is only provided when there is a commitment or an obligation exists as at financial year end.

(k) Management expenses, commission expenses and wakalah fee

Acquisition costs, commissions and management expenses are borne by the Family Takaful and General Takaful funds respectively in profit or loss at an agreed percentage of the gross contribution, in accordance with the principles of “Wakalah” as approved by the Company’s Shariah Advisory Committee and agreed between the participants and the Company. These expenses are allocated to the Shareholders’ fund via upfront wakalah fee and deferred wakalah fee.

Upfront wakalah fee is allocated to the Shareholders’ fund and recognised as income upon issuance of certificates.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(k) Management expenses, commission expenses and wakalah fee (continued)

Deferred wakalah fee is allocated to the Shareholders’ fund upon monthly allocation of tabarru'/donation from the participants' fund to the participants’ special account and is deferred as a liability under "deferred wakalah fee reserve". Deferred wakalah fee is recognised as income in the Shareholders’ fund based on the recommendation by the Appointed Actuary when the participants’ special account is in a surplus position after an annual actuarial valuation of the participants’ special account at the end of the financial year.

In the event that the participants’ special account is in a deficit position, the deficit in the participants’ special account will be made good by the "deferred wakalah fee reserve" arising from monthly allocation of tabarru’/donation before the Shareholders’ fund via a benevolent loan or Qardh.

As at 30 June 2012, “deferred wakalah fee reserve" arising from monthly allocation of tabarru’/donation is nil.

In addition, at each reporting date, the Company estimates its net future expenses cashflow required on the maintenance of the takaful funds. If the estimate shows that there is a deficiency in the net future expense cashflow, the deficiency is recognised as an additional deferred wakalah fee.

(l) Employee benefits

Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits, which are short-term employee benefits, are accrued in the financial year in which the associated services are rendered by employees of the Company.

Post employment benefits

The Company’s contributions to the national defined contribution plan, the Employees’ Provident Fund, are charged to profit or loss of the respective funds in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(m) Product classification

The Company on behalf of takaful funds, issues contracts that transfer takaful risk and 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. Takaful risk is the risk other than financial risk.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Product classification (continued)

Takaful contracts are those contracts that transfer significant takaful risk. A takaful contract is a contract under which the takaful operator on behalf of takaful funds has accepted significant takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the takaful event) adversely affects the participants. As a general guideline, the Company defines significant takaful risk to be the possibility of having to pay benefits on the occurrence of a takaful event that are at least 5% more than the benefits payable if the takaful event did not occur.

Investment contracts are those contracts that do not transfer significant takaful risk.

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

Based on the Company's assessment, all such contracts underwritten by the Company meet the definition of takaful contracts and accordingly are classified as takaful contracts.

Takaful 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 Company; 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 Company; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(m) Product classification (continued)

Surpluses in the DPF fund are distributable to participants and the Company in accordance with the relevant terms under the takaful contracts. The Company however has the discretion over the amount and timing of the distribution of these surpluses to participants, subject to the advice of the Company's Appointed Actuary. The Company does not recognise the guaranteed component separately from the DPF and the whole contract liabilities, including both guaranteed and discretionary and unallocated surplus at the end of the reporting period are held within the takaful contract liabilities.

For financial options and guarantees which are not closely related to the host takaful contract, 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 a takaful contract, or embedded options to surrender takaful contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Takaful contracts that contain both a financial risk component and a significant takaful risk component are not unbundled and classified as takaful contracts as the current accounting policy recognises all takaful contributions, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the profit or loss.

(n) Retakaful contracts

Takaful funds cede takaful risk in the normal course of business for its businesses. Retakaful assets represent balances due from retakaful operators. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful's policies and are in accordance with the related retakaful contracts.

Ceded retakaful arrangements do not relieve the fund from its obligations to participants. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

Retakaful 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 retakaful asset that the fund 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 fund will receive from the retakaful operator. The impairment loss is recorded in profit or loss.

The fund also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Retakaful contracts (continued)

Contributions and claims on assumed facultative retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the ceded retakaful business. Contributions, claims and other transactions costs on assumed treaty retakaful are accounted for upon notification by the ceding companies or upon receipts of statements of accounts.

Retakaful liabilities represent balances due to retakaful operators. Amounts payable are estimated in a manner consistent with the related retakaful contract.

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

Retakaful contracts that do not transfer significant takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less an explicit identified contributions or fees to be retained by the retakaful operator.

(o) Family Takaful contracts

Family Takaful fund

The Family Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and includes the amount attributable to participants, if any. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund, and is distributed in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. Based on the terms of takaful contracts issued by the Company, no underwriting surplus is attributable to participants.

Any actuarial deficit in the Family Takaful fund will be made good by the Shareholders' fund via a benevolent loan or Qardh and are being reflected as Qardh receivable in the Shareholders' fund and Qardh payable in the Family Takaful fund.

Contribution income

Contributions include contributions recognised in the Family Takaful fund and investment linked funds.

Contributions are recognised as soon as the amount of contributions can be reliably measured. Initial contribution is recognised from inception date and subsequent contributions are recognised on due dates.

Contributions of investment-linked funds are in respect of the net creation of units which represent contributions paid by participants as payment for new certificates or subsequent payments to increase the amount of their certificate. Net creation of units is recognised on a receipt basis.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Family Takaful contracts (continued)

Benefits, claims and expense

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the takaful operator is notified.

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

Benefits and claims arising on Family Takaful certificates, including settlement costs, are accounted for using the case basis method and for this purpose the benefits payable under a Family Takaful certificate are recognised as follows:

(i) Maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates;
(ii) Death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the participant or occurrence of contingency covered.

The benefits payable under investment-linked business are in respect of net creation of units and are recognised as surrenders.

Family Takaful contract liabilities

These liabilities comprise claims liabilities, actuarial liabilities, unallocated surplus/deficit, Qardh payable and AFS fair value reserves.

(i) Claims liabilities

The amounts payable under a Family Takaful certificate in respect of benefits and claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

(ii) Unallocated surplus/deficits

Unallocated surplus represents remaining underwriting surplus less certain percentage of surplus set aside for contingency reserve in the participants' special account that may be donated to charitable organisations selected by the Company subject to the approval of the Operator's Shariah Advisory Committee.

Unallocated deficits represents accumulated actuarial deficit in the Family Takaful fund.

(iii) Qardh payable.

Qardh payable represents benevolent loan from Shareholders' fund and shall be repaid from future surpluses of the Family Takaful fund. Qardh payable is stated at cost. As required by the Guidelines issued by BNM, the Qardh payable in the Takaful fund is offset against the Qardh receivable in the Shareholders' fund in the Company's financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Family Takaful contracts (continued)

(iv) Actuarial liabilities

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

These liabilities are measured by a prospective actuarial valuation method. The liability is determined as the sum of present value of future benefits and any expected future expenses payable from the takaful funds, less the present value of future gross tabarru arising from the certificate, discounted at the appropriate risk discount rate. The liabilities are based on best estimate assumptions and with due regard to significant recent experience. Provision of risk margin for adverse deviation (“PRAD”) at 75% confidence level was made in the valuation of these liabilities.

In the case of a 1-year family takaful certificate or 1-year extension to a family takaful certificate shall be valued according to the following:

a) For a certificate covering death or survival, the liabilities shall be valued on an unexpired risk basis using a prospective estimate of expected future payments arising from future events covered as at the valuation date.
b) For a certificate covering contingencies other than death or survival, the liability for such family takaful certificate comprises the provision for unearned contribution and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported.

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

The liability adequacy test has been built in the estimation of actuarial liabilities and hence no separate assessment is to be carried out.

(v) Available-for-sale reserve

Fair value gains and losses of AFS financial assets of the Family Takaful fund are reported as a separate component of the takaful contract liabilities until the AFS financial assets are derecognised or the financial assets are determined to be impaired.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) General Takaful contracts

General Takaful fund

The General Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and consists of participants' account and participants' special account.

Any deficit in the participants' special account will be made good by the Shareholders' fund via a benevolent loan or Qardh and are being reflected as Qardh receivable in the Shareholders' fund and Qardh payable in the General Takaful fund.

Contribution income

Contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Contributions from direct business are recognised during the financial year upon the issuance of debit notes. Contributions in respect of risks incepted for which debit notes have not been raised as of the balance sheet date are accrued at that date.

Claims and expenses

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liabilities for compensation owed to certificate holders or third parties damaged by the certificated holders. They include direct and indirect claims settlements costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

General Takaful contracts liabilities

General Takaful contracts liabilities are recognised when contracts are entered into and contributions are charged. These liabilities comprise of contribution liabilities, claims liabilities, participants' account and the Qardh payable. Provision of risk margin for adverse deviation ("PRAD") at 75% confidence level was made in the valuation of these liabilities.

(i) Contribution liabilities

The contribution liabilities refer to the higher of:

a) the aggregate of the provision for unearned contribution reserves ("UCR") or
b) the best estimate value of the provision for unexpired risk ("URR") at the valuation date and the PRAD calculated at the total fund level. The best estimate value is a prospective estimate of the expected future payments arising from future events covered under certificates in force as at the valuation date and also includes allowance for expenses, including cost of retakaful, expected to be borne by the takaful fund in administering these certificates during the unexpired period and settling the relevant claims, and allows for expected future contribution refunds.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) General Takaful contracts (continued)

(i) Contribution liabilities (continued)

UCR represent the portion of net contributions of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year. In determining the UCR at date of statement of financial position, the method that most accurately reflects the actual unearned contributions is used as follows:

(1) 25% method for Malaysian cargo certificates.
(2) 1/365th method for all other classes of General Takaful business within Malaysia, reduced by the corresponding percentage of accounted wakalah fee not exceeding the limits specified by BNM.
(3) Time apportionment method for non-annual certificates with certificate cover period of more than one year, reduced by the corresponding percentage of accounted wakalah fee to the corresponding contribution, not exceeding the limits specified by BNM.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned contribution. If these estimates show that the carrying amount of the unearned contribution less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

The liability adequacy test has been built in the estimation of contribution liabilities and hence no separate assessment is to be carried out.

(ii) Claims liabilities

Claims liabilities 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 based on empirical data and current assumptions. 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.

The liability adequacy test has been built in the estimation of claims liabilities and hence no separate assessment is to be carried out

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) General Takaful contracts (continued)

(iii) Participants' account

Participants' account comprise of participants' investment account and participants' special account.

Participants' investment account represents the proportion of contributions set aside for the purpose of investment. Participants' special account represents the accumulated participants' share in the net surplus of the General Takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. In the event of actuarial deficit, participants' special account represents accumulated actuarial deficits in the paricipants' special account and will be made good by the Shareholders' fund via a benevolent loan or Qardh payable.

(iv) Qardh payable

Qardh payable represent benevolent loan from Shareholdes' fund and shall be repaid from future surplus of the General Takaful fund. Qardh payable is stated at cost. As required by the Guidelines issued by BNM, the Qardh payable in the Takaful fund is offset against the Qardh receivable in the Shareholders' fund in the Company's financial statements.

(q) Other revenue recognition

Investment income is recognised on a time proportion basis taking into account the effective yield of the asset.

Investment profit of Family Takaful and General Takaful funds is shared by the participants and the Shareholders' fund at an agreed percentage, in accordance with the principles of Mudharabah basis as approved by the Company's Shariah Committee and agreed between the participants and the Company.

(r) Foreign currencies

(i) Functional and presentation currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(r) Foreign currencies (continued)

(ii) Transactions and balances

Foreign currency translations are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting in the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of respective funds.

(s) Contingent liabilities and contingent assets

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

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

(t) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

(a) Critical judgements made in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) Claims liabilities of General Takaful business

For the financial year ended 30 June 2012, the claims estimates have been computed by an independent actuarial firm, Actuarial Partners Consulting Sdn Bhd ("Actuarial Partners"). Actuarial Partners had considered the Ultimate Loss Ratio ("ULR") method for the claims estimates for all classes except fire, personal accident and other classes given the fact that the Company only has six years of operations. The method requires a selected ULR to be applied to the net earned contribution in order to project the amount of ultimate claims incurred for each loss year. The claims incurred for known claims is then subtracted from the projected ultimate claims incurred for each loss year in order to estimate the amount of claims to be incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(i) Claims liabilities of General Takaful business (continued)

Assumptions regarding the ULR vary by class of business and, in general, take into account the following:

(i) The Company's claims incurred development to-date;
(ii) Net contribution remaining after deducting wakalah fee; and
(iii) The industry loss experience.

Details of key assumptions used and the related sensitivity analysis are shown in Note 28(b).

(iii) Actuarial liabilities for Family Takaful fund

Actuarial liabilities as determined by the annual actuarial valuation are based on the Takaful Act, 1984.

For Family Takaful plans, the actuarial liabilities are determined by the Company's Appointed Actuary and were set up based on the unearned contribution reserve basis in which the proportion is equivalent to the ratio of the period from the valuation date to the period of next Tabarru' dripping period and the period of cover provided by risk charges recognised.

The following methodology is used in determining the unearned contribution reserve:

For long term liabilities, which currently consist of Mortgage Reducing Term Takaful policies, the cash flow reserves are set up for mortality benefits on a best estimate basis, which results in reserves being equal to a proportion of the risk charges, for unexpired risk or unearned contribution. Cash flow reserves for future expenses are not set up as management expenses and commissions are paid from the Shareholders fund.

Details of key assumptions used and the sensitivity analysis are shown in Note 28(a).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Changes in accounting policies and effects arising from adoption of new and revised FRSs and Issues Committee Interpretations ("IC Interpretations")

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

- Amendments to FRS 2 "Group Cash-settled Share-based Payment Transactions"
- Amendments to FRS 7 "Improving Disclosures about Financial Instruments"
- Improvements to FRSs (2010)
- Amendments to IC Interpretation 4 "Determining whether an Arrangement contains a Lease"

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

(ii) 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:

FRSs	Effective date
Amendments to FRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	1 January 2012
Amendments to FRS 7 "Disclosures-Transfers of Financial Assets"	1 January 2012
Amendments to FRS 101 "Presentation of Items of Other Comprehensive Income"	1 July 2012
Amendments to FRS 112 "Deferred Tax: Recovery of Underlying Assets"	1 January 2012
FRS 124 (revised) "Related Party Disclosures"	1 January 2012

The Company's next set of financial statements for financial year beginning on or after 1 July 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") issued by the MASB that will also comply with International Financial Reporting Standards ("IFRS"). As a result, the Company will not be adopting the above FRSs, Interpretations and amendments that are effective for financial year beginning on or after 1 July 2012.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Adoption of BNM Guidelines

At the beginning of current financial period on 1 July 2011, the following Guidelines issued by BNM were adopted by the Company:

(i) Guidelines on Valuation Basis for Liabilities of General Takaful Business

This Guideline requires takaful operators to measure its claim liabilities at a 75% level of sufficiency at the total fund level. The contribution liabilities of a takaful operator should be the higher of the aggregate of its unearned contribution reserves ("UCR") or its unexpired risk reserves ("URR") and a PRAD at 75% confidence level, calculated at the total fund level. The Guideline also dictates the valuation of the expense liabilities of the Company which is required to be measured at the higher of the aggregate of its provision for unearned wakalah fees ("UWF") or its unexpired expense reserves ("UER") and a PRAD at 75% confidence level, calculated at the total fund level

The change in the valuation basis has been applied retrospectively by adjusting the affected items as at 1 July 2010 and 30 June 2011. The notes to the statement of financial position as at 1 July 2010 arising from the changes in accounting policies below have also been shown where they are affected by such changes. The adjustments are details as follows:

Shareholders' fund

(a) Impact on statement of financial position

	As at 1 July 2010		
	As previously reported RM'000 Dr/(Cr)	Effect of adoption of BNM Guidelines RM'000 Dr/(Cr)	As restated RM'000 Dr/(Cr)
Other receivables (including qardh receivable)	2,562	(223)	2,339
Accumulated losses	5,284	744	6,028
Other payables	(4,803)	223	(4,580)
Deferred wakalah income	(247)	(744)	(991)

	As at 30 June 2011		
	As previously reported RM'000 Dr/(Cr)	Effect of adoption of BNM Guidelines RM'000 Dr/(Cr)	As restated RM'000 Dr/(Cr)
Other receivables (including qardh receivable)	7,921	(249)	7,672
Accumulated losses	5,944	1,454	7,398
Other payables	(8,721)	249	(8,472)
Deferred tax liabilities	(858)	485	(373)
Deferred wakalah income	(1,224)	(1,939)	(3,163)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Adoption of BNM Guidelines (continued)

At the beginning of current financial period on 1 July 2011, the following Guidelines issued by BNM were adopted by the Company (continued):

(i) Guidelines on Valuation Basis for Liabilities of General Takaful Business (continued)

Shareholders' fund (continued)

(a) Impact on statement of financial position (continued)

	Increase / (decrease) to balance as at 30 June 2012
	RM'000
Deferred wakalah income	4,614
Accumulated losses	(3,360)
Deferred tax asset liabilities	1,153
Other payables	592
Qard receivable	(592)

(b) Impact on income statements

	Financial year ended 30 June 2011		
	As previously reported	Effect of adoption of BNM Guidelines	As restated
	RM'000 Dr/(Cr)	RM'000 Dr/(Cr)	RM'000 Dr/(Cr)
Wakalah fee	(20,147)	1,195	(18,952)
Deferred tax expense	195	(485)	(290)
Net loss for the financial year	660	710	1,370

	Increase / (decrease) for the financial year ended 30 June 2012
	RM'000
Wakalah fee	(2,674)
Deferred tax expense	769
Net loss for the financial year	1,905

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Adoption of BNM Guidelines (continued)

At the beginning of current financial period on 1 July 2011, the following Guidelines issued by BNM were adopted by the Company (continued):

(i) Guidelines on Valuation Basis for Liabilities of General Takaful Business (continued)

General Takaful fund

(a) Impact on statement of financial position

	As at 1 July 2010		
	As previously reported RM'000 Dr/(Cr)	Effect of adoption of BNM Guidelines RM'000 Dr/(Cr)	As Restated RM'000 Dr/(Cr)
Takaful contract liabilities			
Participants' accounts	2,611	(419)	2,192
Provision for outstanding claims	(5,750)	(529)	(6,279)
Unearned contribution reserves	(6,802)	866	(5,936)
Qardh payable	(1,812)	223	(1,589)
Retakaful assets			
Provision for outstanding claims	3,482	369	3,851
Unearned contribution reserves	2,255	(287)	1,968
Other receivables	1,271	(223)	1,048

	As at 30 June 2011		
	As previously reported RM'000 Dr/(Cr)	Effect of adoption of BNM Guidelines RM'000 Dr/(Cr)	As Restated RM'000 Dr/(Cr)
Takaful contract liabilities			
Participants' accounts	7,192	(725)	6,467
Provision for outstanding claims	(20,678)	(2,216)	(22,894)
Unearned contribution reserves	(24,179)	3,078	(21,101)
Qardh payable	(6,699)	249	(6,450)
Retakaful assets			
Provision for outstanding claims	12,452	1,529	13,981
Unearned contribution reserves	13,087	(1,666)	11,421
Other receivables	4,111	(249)	3,862

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Adoption of BNM Guidelines (continued)

At the beginning of current financial period on 1 July 2011, the following Guidelines issued by BNM were adopted by the Company (continued):

(i) Guidelines on Valuation Basis for Liabilities of General Takaful Business (continued)

General Takaful fund (continued)

(a) Impact on statement of financial position (continued)

	Increase / (decrease) in balances as at 30 June 2012 RM'000
Net unearned contribution reserve	(3,610)
Net takaful contract liabilities	1,624
Participants' account	1,494
Deferred tax assets	497
Qard payable	(592)
Other receivables	592

(b) Impact on statement of comprehensive income

	Financial year ended 30 June 2011		
	As previously reported RM'000 Dr/(Cr)	Effect of adoption of BNM Guidelines RM'000 Dr/(Cr)	As restated RM'000 Dr/(Cr)
Change in unearned contribution reserve	6,545	(833)	5,712
Net change to certificate liabilities	5,958	527	6,485

	Increase / (decrease) for the financial year ended 30 June 2012 RM'000 Dr/(Cr)
Change in unearned contribution reserve	2,198
Net change to certificate liabilities	(937)
Deferred tax expenses	(497)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Adoption of BNM Guidelines (continued)

(ii) Guidelines on Valuation Basis for Liabilities of Family Takaful Business

This Guideline stipulates the valuation basis for liabilities of family takaful business, the overall value of liabilities of family takaful fund and expense liabilities of shareholders' fund shall secured at 75% confidence level. With the adoption of this guideline, PRAD was changed from 50% to 75% confidence level. However, no adjustment was made to the opening balance as additional provision of risk margin was made in the prior financial year valuation. The valuation method was further discussed in Note 2.2(o)(iv).

(iii) Guidelines on Financial Reporting for Takaful Operators

This Guideline primarily prescribes the minimum disclosure requirements for financial statements of takaful operators including the requirement to present statements of financial position, income statements, statement of comprehensive income and related explanatory notes by funds. In addition, the Guideline also requires that takaful operators ensure that the aggregated total assets and total liabilities presented in the Company's statement of financial position are net of Qardh. To comply with these Guidelines, the Qardh receivable in the Shareholders' fund has been offset against the Qardh payable in the Takaful funds in the Company's financial statements.

3 PROPERTY AND EQUIPMENT

Shareholders' fund

	Computer equipment RM'000	Furniture & fittings, office equipment and renovation RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost					
At 1 July 2010	498	1,083	273	-	1,854
Additions	62	63	147	57	329
At 30 June 2011/1 July 2012	560	1,146	420	57	2,183
Additions	112	501	362	109	1,084
Reclass (from)/to	-	23	-	(23)	-
Write off	-	(1,091)	-	-	(1,091)
At 30 June 2012	672	579	782	143	2,176
Accumulated depreciation					
At 1 July 2010	298	498	67	-	863
Charge for the financial year	105	222	28	-	355
At 30 June 2011/1 July 2012	403	720	95	-	1,218
Charge for the financial year	91	148	68	-	307
Write off	-	(771)	-	-	(771)
At 30 June 2012	494	97	163	-	754
Net book value					
At 30 June 2012	178	482	619	143	1,422
At 30 June 2011	157	426	325	57	965

4 INTANGIBLE ASSETS

Shareholders' fund	Computer software 2012 RM'000	Computer software 2011 RM'000
Cost		
At 1 July	2,562	2,537
Additions	60	25
At 30 June	2,622	2,562
Accumulated amortisation		
At 1 July	2,072	1,560
Amortisation charge for the financial year	333	512
At 30 June	2,405	2,072
Net book value		
At 30 June	217	490

5 FINANCIAL ASSETS

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Government Investment Issues	4,192	1,524	14,768
Islamic bonds	53,445	6,206	19,640
Equity securities	4,568	742	1,751
Investments in investment-linked funds	4,567	-	-
Structured investments	-	-	52,699
Accrued profit	374	58	444
Total	67,146	8,530	89,302
2011			
Government Investment Issues	4,118	1,521	14,718
Islamic bonds	55,966	713	12,430
Equity securities	5,312	-	1,206
Investments in investment-linked funds	4,000	-	-
Structured investments	-	-	76,961
Accrued profit	201	31	497
Total	69,597	2,265	105,812

5 FINANCIAL ASSETS (CONTINUED)

The Company's financial assets are summarised as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
AFS	67,146	8,530	32,054
FVTPL – designated upon initial recognition	-	-	57,248
Total	67,146	8,530	89,302
Current	3,055	611	1,425
Non-current	64,091	7,919	87,877
	67,146	8,530	89,302

(a) AFS

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Equity securities quoted in Malaysia	4,568	742	1,603
Government Investment Issues	4,192	1,524	13,212
Islamic bonds	53,445	6,206	16,818
Investments in investment-linked funds	4,567	-	-
Accrued profit	374	58	421
Total	67,146	8,530	32,054

(b) FVTPL – Designated upon initial recognition

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Equity securities quoted in Malaysia	-	-	148
Government Investment Issues	-	-	1,556
Islamic bonds	-	-	2,822
Structured investments	-	-	52,699
Accrued profit	-	-	23
Total	-	-	57,248

5 FINANCIAL ASSETS (CONTINUED)

The Company's financial assets are summarised as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2011			
AFS	69,597	2,265	23,645
FVTPL – designated upon initial recognition	-	-	82,167
Total	69,597	2,265	105,812
Current	8,600	-	3,533
Non-current	60,997	2,265	102,279
	69,597	2,265	105,812

(a) AFS

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Equity securities quoted in Malaysia	5,312	-	1,034
Government Investment Issues	4,118	1,521	13,182
Islamic bonds	55,966	713	9,009
Investments in investment-linked funds	4,000	-	-
Accrued profit	201	31	420
Total	69,597	2,265	23,645

(b) FVTPL – Designated upon initial recognition

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Equity securities quoted in Malaysia	-	-	172
Government Investment Issues	-	-	1,536
Islamic bonds	-	-	3,421
Structured investments	-	-	76,961
Accrued profit	-	-	77
Total	-	-	82,167

5 FINANCIAL ASSETS (CONTINUED)

(c) Carrying values of financial investments

	Available-for-sale			Designated
	Shareholders' fund	General Takaful fund	Family Takaful fund	Family Takaful fund
	RM'000	RM'000	RM'000	RM'000
At 1 July 2010	71,366	2,276	19,819	212,339
Purchases	4,610	-	3,690	-
Maturities	(7,000)	-	-	(140,168)
Disposals, at carrying value	(1,201)	-	(194)	-
Fair value (losses)/gains recorded in:				
Profit or loss	(365)	-	-	-
Other comprehensive income	2,077	-	-	-
Takaful contract liabilities	-	9	170	9,959
Accretion/(amortisation)-net	322	(3)	(8)	-
Movement in accrued profit	(212)	(17)	168	37
At 30 June 2011/1 July 2011	69,597	2,265	23,645	82,167
Purchases	20,361	15,689	21,605	801
Maturities	(8,500)	-	(2,500)	(25,967)
Disposals, at carrying value	(15,417)	(9,509)	(10,997)	(400)
Fair value (losses)/gains recorded in:				
Profit or loss	697	-	-	-
Other comprehensive income	41	-	-	-
Takaful contract liabilities	-	68	306	701
Accretion/(amortisation)-net	194	(10)	(6)	-
Movement in accrued profit	173	27	1	(54)
At 30 June 2012	67,146	8,530	32,054	57,248

As at 30 June 2012, impairment provision of impaired available-for-sale financial assets of RM442,946 is RM118,046 (2011: impairment provision of impaired available-for-sale financial assets of RM758,250 is RM364,834). A reconciliation of the allowance for impairment losses for available-for-sale financial assets is as follows:

	Shareholders' fund	
	2012	2011
	RM'000	RM'000
At 1 July	365	-
Charge for the financial year	118	365
At 30 June	483	365

5 FINANCIAL ASSETS (CONTINUED)

(d) Fair value hierarchy

The table below shows the financial assets recorded at fair value by their valuation method.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Available-for-Sale			Designated
	Shareholders' fund	General Takaful fund	Family Takaful fund	Family Takaful fund
	RM'000	RM'000	RM'000	RM'000
2012				
Level 1	9,135	742	1,603	148
Level 2	58,011	7,788	30,451	57,100
Level 3	-		-	-
	67,146	8,530	32,054	57,248
2011				
Level 1	9,312	-	1,034	172
Level 2	60,285	2,265	22,611	81,995
Level 3	-	-	-	-
	69,597	2,265	23,645	82,167

6 LOANS AND RECEIVABLES

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Fixed and cash deposits with licensed financial institutions	-	352	10,510
Accrued profit	-	6	76
	-	358	10,586
Receivables within 12 months	-	358	10,586
2011			
Fixed and cash deposits with licensed financial institutions	-	341	5,341
Accrued profit	-	4	37
	-	345	5,378
Receivables within 12 months	-	345	5,378

7 RETAKAFUL ASSETS

	General Takaful fund RM'000	Family Takaful fund RM'000
2012		
Retakaful of Takaful contracts	51,809	19,257
2011		
Retakaful of Takaful contracts (Note 2.5(i))	25,402	33,072
2010		
Retakaful of Takaful contracts (Note 2.5(i))	5,819	20,916

8 TAKAFUL RECEIVABLES

	General Takaful fund RM'000	Family Takaful fund RM'000
2012		
Outstanding contributions including agents, brokers and co-takaful balances	19,531	1,924
Less: Allowance for impairment	(3,479)	(17)
	16,052	1,907
Amount due from retakaful operators	1,687	1,720
Less: Allowance for impairment	(682)	-
	1,005	1,720
	17,057	3,627
2011		
Outstanding contributions including agents, brokers and co-takaful balances	18,575	3,113
Less: Allowance for impairment	(6,006)	-
	12,569	3,113
Amount due from retakaful operators	1,016	1,346
Less: Allowance for impairment	(697)	-
	319	1,346
	12,888	4,459

9 OTHER RECEIVABLES

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Dividend receivables	49	-	8
Due from Shareholders' fund	-	207	1,519
Due from General Takaful fund	-	-	-
Due from Family Takaful fund	-	-	-
Other receivables	508	107	149
	557	314	1,676
Qardh			
Family Takaful fund, at cost (Note 11(a))	990	-	-
General Takaful fund, at cost (Note 11(b))	10,604	-	-
	11,594	-	-
	12,151	314	1,676
2011			
Dividend receivables	-	-	-
Amount due from Shareholders' fund	-	3,817	-
Due from General Takaful fund	-	-	4
Due from Family Takaful fund	936	-	-
Other receivables	286	45	3
	1,222	3,862	7
Qardh			
General Takaful fund, at cost (Note 2.5(i))	6,450	-	-
	7,672	3,862	7

9 OTHER RECEIVABLES (CONTINUED)

	Shareholders' fund RM'000	General Takaful fund RM'000
2010		
Dividend receivables	35	-
Due from Family Takaful fund	436	-
Due from Shareholders' fund	-	1,048
Other receivables	279	-
	750	1,048
Qardh		
General Takaful fund, at cost (Note 2.5(i))	1,589	-
	2,339	1,048

Qardh represents an interest-free loan to the General and Family Takaful funds to make good the actuarial deficit and underwriting deficit in the fund. The amount is unsecured, not subject to any profit element and has no fixed terms of repayment.

Qardh receivable of Shareholders' fund have been offset against the qardh payable (Note 11) of Takaful funds of an equivalent amount in arriving at the Company's statement of financial position on page 17.

Amounts due from takaful funds and Shareholders' fund are unsecured, not subject to any profit element and have no fixed terms of repayment.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Cash and bank balances	1,011	5,300	24,712
Short term deposits	28,011	16,235	11,600
Accrued profit	3	2	11
	29,025	21,537	36,323
2011			
Cash and bank balances	2,439	2,474	8,447
Short term deposits	26,274	14,504	9,972
Accrued profit	1	1	10
	28,714	16,979	18,429

11 TAKAFUL CONTRACT LIABILITIES

		2012			2011			2010		
	Note	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Family Takaful	11(a)	149,624	(19,257)	130,367	158,031	(33,072)	124,959	265,739	(20,916)	244,823
General Takaful	11(b)	86,418	(51,809)	34,609	44,006	(25,402)	18,604	11,631	(5,819)	5,812
		236,042	(71,066)	164,976	202,037	(58,474)	143,563	277,370	(26,735)	250,635

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful contract liabilities

The Family Takaful contract liabilities and its movements are further analysed as follows:

		2012			2011	
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Certificateholders' liabilities	86,311	(14,231)	72,080	72,941	(31,009)	41,932
Net asset value attributable to certificateholders	57,002	-	57,002	80,423	-	80,423
Actuarial liabilities (i)	143,313	(14,231)	129,082	153,364	(31,009)	122,355
Claims liabilities	5,705	(5,026)	679	2,327	(2,063)	264
Unallocated (deficit)/ surplus (ii)	(990)	-	(990)	1,971	-	1,971
Available-for-sale reserve (iii)	606	-	606	369	-	369
Qardh payable	990	-	990	-	-	-
	149,624	(19,257)	130,367	158,031	(33,072)	124,959

Qardh payable have been offset against the qardh receivable (Note 9) of the Shareholders' fund of an equivalent amount in arriving at the Company's statement of financial position on page 17.

(i) Actuarial liabilities

	Gross RM'000	Re-takaful RM'000	Net RM'000
At 1 July 2010	264,504	(20,545)	243,959
Change in certificate liabilities	22,263	(10,464)	11,799
Movement in net asset value attributable to certificateholders	(133,403)	-	(133,403)
At 30 June 2011/1 July 2012	153,364	(31,009)	122,355
Change in certificate liabilities	13,370	16,778	30,148
Movement in net asset value attributable to certificateholders	(23,421)	-	(23,421)
At 30 June 2012	143,313	(14,231)	129,082

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful contract liabilities (continued)

	Gross/Net 2012 RM'000	Gross/Net 2011 RM'000
(ii) Unallocated (deficit)/surplus		
As at 1 July	1,971	790
(Deficit)/surplus during the financial year	(2,961)	1,181
At 30 June	(990)	1,971
(iii) Available-for-sale reserve		
As at 1 July	369	223
Net fair value change during the financial year	237	146
At 30 June	606	369

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities

The General Takaful contract liabilities and its movements are further analysed as follows:

	2012			2011			2010		
	Gross	Retakaful	Net	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for claims reported by certificateholders	26,524	(16,753)	9,771	13,510	(8,305)	5,205	2,189	(1,087)	1,102
Provision for IBNR	18,535	(10,577)	7,958	9,384	(5,676)	3,708	4,090	(2,764)	1,326
Provision for outstanding claims (i)	45,059	(27,330)	17,729	22,894	(13,981)	8,913	6,279	(3,851)	2,428
Unearned contribution reserve (ii)	40,201	(24,479)	15,722	21,101	(11,421)	9,680	5,936	(1,968)	3,968
Available-for-sale reserve (iii)	71	-	71	28	-	28	19	-	19
Participants' accounts (iv)	(9,517)	-	(9,517)	(6,467)	-	(6,467)	(2,192)	-	(2,192)
Qardh payable	10,604	-	10,604	6,450	-	6,450	1,589	-	1,589
	86,418	(51,809)	34,609	44,006	(25,402)	18,604	11,631	(5,819)	5,812

Qardh payable have been offset against the qardh receivable (Note 9) of the Shareholders' fund of an equivalent amount in arriving at the Company's statement of financial position on page 17.

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities

The General Takaful contract liabilities and its movements are further analysed as follows:

			2012			2011
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Provision for outstanding claims						
At 1 July, as previously stated	20,678	(12,452)	8,226	5,750	(3,482)	2,268
Effects of adoption of BNM Guidelines (Note 2.5(i))	2,216	(1,529)	687	529	(369)	160
As restated	22,894	(13,981)	8,913	6,279	(3,851)	2,428
Claims incurred in the current accident year	35,591	(21,876)	13,715	12,782	(7,511)	5,271
Other movements in claims incurred in prior accident year	(3,879)	4,762	883	7,534	(4,438)	3,096
Claims paid during the financial year	(9,547)	3,765	(5,782)	(3,701)	1,819	(1,882)
At 30 June	45,059	(27,330)	17,729	22,894	(13,981)	8,913
(ii) Unearned contribution reserve						
At 1 July, as previously stated	24,179	(13,087)	11,092	6,802	(2,255)	4,547
Effects of adoption of BNM Guidelines (Note 2.5(i))	(3,078)	1,666	(1,412)	(866)	287	(579)
As restated	21,101	(11,421)	9,680	5,936	(1,968)	3,968
Contribution written in the financial year	72,824	(46,464)	26,360	50,592	(31,134)	19,458
Contribution earned during the financial year	(53,724)	33,406	(20,318)	(35,427)	21,681	(13,746)
At 30 June	40,201	(24,479)	15,722	21,101	(11,421)	9,680

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities (continued)

(iii) Available-for-sale reserve

	Gross/Net	
	2012	2011
	RM'000	RM'000
As at 1 July	28	19
Net fair value change during the financial year	43	9
At 30 June	71	28

(iv) Participants' accounts

Participants' investment fund	(493)	(799)
Participants' special account	(6,699)	(1,812)
At 1 July, as previously stated	(7,192)	(2,611)
Effects of adoption of BNM Guidelines (Note 2.5(i))		
Participants' accounts:	725	419
As restated	(6,467)	(2,192)
Deficit arising during the financial year	(3,050)	(4,275)
At 30 June	(9,517)	(6,467)
Comprising:		
Participants' investment fund	1,087	(17)
Participants' special account	(10,604)	(6,450)
	(9,517)	(6,467)

12 TAKAFUL PAYABLES

	General Takaful fund RM'000	Family Takaful fund RM'000
2012		
Due to agents and intermediaries	2,060	-
Due to retakaful operators and cedants	13,169	5,917
	15,229	5,917
2011		
Due to agents and intermediaries	4,035	-
Due to retakaful operators and cedants	15,611	3,771
	19,646	3,771

13 OTHER PAYABLES

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Contribution deposits	-	31	1,831
Amount due to Family Takaful fund	1,519	-	-
Amount due to Shareholders' fund	-	-	-
Amount due to General Takaful fund	207	-	-
Sundry payables and accruals	6,225	242	2,348
	7,951	273	4,179
2011			
Contribution deposits	-	42	892
Amount due to Family Takaful fund	-	4	-
Amount due to Shareholders' fund	-	-	936
Amount due to General Takaful fund	3,817	-	-
Sundry payables and accruals	4,655	398	2,765
	8,472	444	4,593

13 OTHER PAYABLES (CONTINUED)

	Shareholders' fund RM'000	General Takaful fund RM'000
2010		
Contribution deposits	-	432
Amount due to General Takaful fund (Note 2.5 (i))	1,048	-
Sundry payables and accruals	3,532	243
	4,580	675

Amount due to General and Family Takaful funds in the Shareholders' fund includes the interest-free loan from the Shareholders' fund to the takaful funds under Qardh principle as disclosed in Note 2.2(o) and Note 2.2(p).

Amounts due to takaful funds and Shareholders' fund are unsecured, not subject to any profit element and have no fixed term of repayment.

14 DEFERRED TAX ASSETS/(LIABILITIES)

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

The following amounts, determined after appropriate offsets, are shown in the statements of financial position.

The movements in deferred tax balances are as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
At 1 July 2010	(144)	-	30
Recognised in:			
Profit or loss, as restated	290	-	-
Other comprehensive income	(519)	-	-
Takaful contract liabilities	-	1,402	(374)
At 30 June 2011/1 July 2012	(373)	1,402	(344)
Recognised in:			
Profit or loss	657	-	-
Other comprehensive income	(10)	-	-
Takaful contract liabilities	-	(880)	(48)
At 30 June 2012	274	522	(392)

Presented after appropriate offsetting as follows:

2012

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Deferred tax liabilities	(1,129)	(24)	(392)
Deferred tax assets	1,403	546	-
	274	522	(392)

2011

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
Deferred tax liabilities	(1,160)	-	(344)
Deferred tax assets	787	1,402	-
	(373)	1,402	(344)

14 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Unutilised tax loss and capital allowance RM'000	Payables RM'000	Total RM'000
Shareholders' fund						
At 1 July 2010	-	(144)	-	-	-	(144)
Recognised in:						
Profit or loss, as restated	(213)	-	-	-	503	290
Other comprehensive income	-	(519)	-	-	-	(519)
At 30 June 2011/1 July 2011	(213)	(663)	-	-	503	(373)
Recognised in:						
Profit or loss	80	-	-	-	577	657
Other comprehensive income	-	(10)	-	-	-	(10)
At 30 June 2012	(133)	(673)	-	-	1,080	274
General Takaful fund						
At 1 July 2010	-	-	-	-	-	-
Recognised in:						
Takaful contract liabilities	-	-	602	800	-	1,402
At 30 June 2011/1 July 2011	-	-	602	800	-	1,402
Recognised in:						
Takaful contract liabilities	-	(24)	(56)	(800)	-	(880)
At 30 June 2012		(24)	546	-	-	522

14 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property, and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Unutilised tax loss and capital allowance RM'000	Payables RM'000	Total RM'000
Family Takaful fund						
At 1 July 2010	-	30	-	-	-	30
Recognised in:						
Takaful contract liabilities	-	(374)	-	-	-	(374)
At 30 June 2011/1 July 2011	-	(344)	-	-	-	(344)
Recognised in:						
Takaful contract liabilities	-	(48)	-	-	-	(48)
At 30 June 2012	-	(392)	-	-	-	(392)

As at 30 June 2012, there was no unutilised tax losses for which no deferred tax asset is recognised in the statement of financial position (2011: RM746,000) due to the unavailability of future taxable profits in the Operators' fund.

The deferred tax arising from the unutilised tax losses in the General Takaful fund for the current year was arrived at using the tax rate of the General Takaful fund, i.e.25% on the grounds that the unutilised tax losses will be available to offset future taxable income in the General fund.

15 SHARE CAPITAL

	2012		2011	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Ordinary shares of RM1.00 each				
Authorised:				
At beginning/end of financial year	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning/end of financial year	100,000	100,000	100,000	100,000

16 OPERATING REVENUE

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Total RM'000
2012				
Gross contributions	-	72,824	55,728	128,552
Investment income	3,663	501	4,334	8,498
	3,663	73,325	60,062	137,050
2011				
Gross contributions	-	50,592	35,130	85,722
Investment income	3,720	184	3,127	7,031
	3,720	50,776	38,257	92,753

17 INVESTMENT INCOME

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
AFS financial assets			
Profit income	2,536	167	1,074
Accretion of discounts/(amortisation of premiums) – net	194	(10)	(6)
Dividend income	225	5	73
FVTPL – designated upon initial recognition			
Profit income	-	-	2,744
Dividend income	-	-	3
Loans and receivables			
Profit income	-	38	234
Cash and cash equivalents			
Profit income	708	355	410
	3,663	555	4,532
Less: Share of investment profit of takaful funds with Shareholders' fund	-	(54)	(198)
	3,663	501	4,334
2011			
AFS financial assets			
Profit income	2,564	93	871
Accretion on discounts/(amortisation of premiums) – net	322	(3)	(8)
Dividend income	160	-	2
FVTPL – designated upon initial recognition			
Profit income	-	-	1,996
Dividend income	-	-	2
Loans and receivables			
Profit income	-	8	45
Cash and cash equivalents			
Profit income	674	106	370
	3,720	204	3,278
Less: Share of investment profit of takaful funds with Shareholders' fund	-	(20)	(151)
	3,720	184	3,127

18 REALISED GAINS/(LOSSES)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
AFS financial assets			
Quoted equity	277	-	13
Islamic bond	538	2	3
FVTPL – designated upon initial recognition			
Quoted equity	-	-	2
Islamic bond	-	-	(2)
Structured investments	-	-	691
	815	2	707
2011			
AFS financial assets			
Quoted equity	37	-	24
Islamic bond	(37)	-	-
FVTPL – designated upon initial recognition			
Structured investments	-	-	1,959
	-	-	1,983

19 FAIR VALUE (LOSSES)/GAINS

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Impairment of AFS financial assets	(118)	-	-
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	-	-	10
	(118)	-	10
2011			
Impairment of AFS financial assets	(365)	-	-
Fair value gains on financial assets designated at fair value through profit or loss	-	-	8,000
	(365)	-	8,000

20 OTHER OPERATING INCOME/(EXPENSES)-NET

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Other operating income:			
Write back of provision for bad debt	-	3,235	-
Other income	295	-	-
	295	3,235	-
Other operating expenses:			
Write off of property and equipment	(320)	-	-
Impairment of takaful receivables	(693)	-	(17)
Others	-	(32)	(296)
	(1,013)	(32)	(313)
2011			
Other operating income:			
Other income	166	-	-
	166	-	-
Other operating expenses:			
Impairment of takaful receivables	-	(5,650)	-
Others	-	-	(165)
	-	(5,650)	(165)

21 MANAGEMENT EXPENSES

	2012 RM'000	2011 RM'000
Shareholders' fund		
Staff costs:		
Salary and bonus	8,038	5,672
Social security costs	60	38
Employees' provident fund	1,097	707
Other staff related expenses	420	153
Directors' fees	150	155
Shariah committee remuneration and other expenses	174	139
Depreciation of property and equipment (Note 3)	307	355
Amortisation of intangible assets (Note 4)	333	512
Auditors' remuneration		
- current financial year	176	140
- under provision in prior financial year	90	-
Other professional fee	810	506
Rental of properties	689	648
Shared services fee	1,091	959
PIDM levy	150	250
Other expenses	5,342	2,813
Total	18,927	13,047

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM75,859 (2011: RM617,511).

Included in the staff costs are the remuneration for key management personnel, which is disclosed in Note 26.

22 TAXATION

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Current tax :			
- In respect of current financial year	1,195	-	440
- Under provision in prior financial years	407	-	69
Deferred tax	(657)	856	(5)
	945	856	504
2011			
Current tax	-	-	511
Deferred tax	(290)	(1,402)	374
	(290)	(1,402)	885

The income tax for the Shareholders' fund and General Takaful funds are calculated based on the tax rate of 25% (2011: 25%) of the estimated assessable profit for the financial year. The income tax for the Family Takaful fund is calculated based on tax rate of 8% (2011: 8%) of the assessable investment income net of allowable deductions for the financial year.

The numerical reconciliation between taxation and the product of accounting profit multiplied by the Malaysian tax rate:

	2012 RM'000	2011 RM'000
Loss before taxation	(108)	(1,406)
Taxation at Malaysian statutory rate of 25% (2011: 25%)	(27)	(352)
Tax effects of expenses not deductible for tax purposes	565	247
Deferred tax not recognised in prior year	-	(185)
Under provision in prior financial years	407	-
Tax expense for the financial year	945	(290)

22 TAXATION (CONTINUED)

The amount of deductible temporary differences, unutilised capital allowances and tax losses for which no deferred tax asset is recognised in the balance sheet is as follows:

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000
2012			
Unutilised tax losses	-	-	-
2011			
Unutilised tax losses	746	-	-

23 INVESTMENT-LINKED BUSINESS

(a) Assets and liabilities as at 30 June

	2012 RM'000	2011 RM'000
Assets		
Fair value through profit and loss financial assets	57,248	82,167
Amount due from Shareholders' fund	134	162
Cash and cash equivalents	2,248	2,491
Investment-linked business assets	59,630	84,820
Liabilities		
Deferred tax liabilities	340	344
Current tax liabilities	182	-
Amount due to Family Takaful fund	2,106	4,053
Investment-linked business liabilities	2,628	4,397
Net asset value of funds	57,002	80,423

23 INVESTMENT-LINKED BUSINESS (CONTINUED)

(a) Assets and liabilities as at 30 June (continued)

	2012 RM'000	2011 RM'000
Represented by:		
Unitholders' account		
At beginning of the financial year	80,423	213,826
Creation of units	2,322	4,244
Cancellation of units	(26,856)	(146,984)
Distribution to certificateholders	(1,816)	(1,679)
Surplus for the financial year	2,929	11,016
	57,002	80,423

(b) Income and expenses for the financial year ended 30 June

	2012 RM'000	2011 RM'000
Investment income*	2,790	2,102
Realised gain on disposal of investment	691	1,959
Fair value gain on investments	10	8,000
Other expenses	(271)	(165)
Surplus before taxation	3,220	11,896
Taxation:		
- current tax	(296)	(506)
- deferred tax	5	(374)
	2,929	11,016

* Net of share of investment profit of takaful with Shareholders' fund of RM27,000 (2011: RM36,000).

24 SEGMENTAL INFORMATION ON CASH FLOW

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Total RM'000
2012				
Cash flows from:				
Operating activities	1,455	4,558	17,894	23,907
Investing activities	(1,144)	-	-	(1,144)
	311	4,558	17,894	22,763
Net increase in cash and cash equivalent	311	4,558	17,894	22,763
Cash and cash equivalents:				
At beginning of financial year	28,714	16,979	18,429	64,122
At end of financial year	29,025	21,537	36,323	86,885
2011				
Cash flows from:				
Operating activities	4,277	15,931	5,001	25,209
Investing activities	(354)	-	-	(354)
	3,923	15,931	5,001	24,855
Net increase in cash and cash equivalent	3,923	15,931	5,001	24,855
Cash and cash equivalents:				
At beginning of financial year	24,791	1,048	13,428	39,267
At end of financial year	28,714	16,979	18,429	64,122

25 RELATED PARTY TRANSACTIONS

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

Related Parties	Relationship
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
HLA Holdings Sdn Bhd	Immediate holding company
Mitsui Sumitomo Insurance Corporation, Japan	Substantial Shareholder of the Company
Hong Leong Assurance Berhad	Subsidiary of immediate holding company
Hong Leong Bank Berhad	Subsidiary of ultimate holding company
Hong Leong Islamic Bank Berhad	Subsidiary of ultimate holding company

The Directors are of the opinion that related party transactions were entered into in the normal course of business and have been established on terms and conditions that are no more favourable than those obtainable in similar transactions with unrelated parties unless otherwise stated.

Significant related party transactions with related parties during the financial year are as follows:

	2012 RM'000	2011 RM'000
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(2,923)	(1,597)
- Profit from Islamic deposits and money market placements with licensed banks	1,612	1,135
- Profit from Islamic corporate debentures	212	253
- Office rental expenses	(689)	(725)
- Shared services fee	(1,091)	(959)

Companies within the Hong Leong Company (Malaysia) Berhad Group include Hong Leong Bank Berhad, Hong Leong Islamic Bank Berhad and Hong Leong Assurance Berhad where there were related party transactions.

25 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the balance sheet of the Company are significant related party balances, represented by the following:

	2012 RM'000	2011 RM'000
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	15,265	10,943
- Structured investments, at fair value (Note 5)	-	24,274
- Islamic deposits and money market placements with licensed banks (Note 6 and 10)	60,847	50,759
- Islamic corporate debentures (Note 5)	-	5,041
- Profit receivables (Note 6)	49	53
- Rental deposit included in other receivables (Note 9)	165	162
- Amount due to related companies	(1,497)	(919)

Amounts due to related companies are unsecured, interest free and have no fixed term of repayment.

26 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are defined as those persons having authority and responsibility for the planning, directing and control of the Company's activities, either directly or otherwise. The key management personnel include all the Directors of the Company, and selected senior management members.

Key management personnel's remuneration is as follows:

	2012 RM'000	2011 RM'000
Non-executive directors		
Fees	150	155
Key management personnel		
Short term employee benefits:		
Salary and other remuneration	1,099	1,399
Benefits-in-kind/perquisite	100	78
	1,199	1,477
Total	1,349	1,632

27 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Company has in place a risk management framework and methodology which is adapted from the local regulatory requirements, as well as Hong Leong Bank Risk Management framework, designed to support the identification, assessment, monitoring and control of significant risks covering market risk, credit risk, operational risk and takaful risk.

The day-to-day responsibility for risk management and control is embedded into the respective business lines and the management of each business lines is responsible to ensure that risk management process is functioning effectively. Risk Management functions as an independent party that is responsible for assessing and reporting the potential impact and probability of the significant risks identified across the organisation and the adequacy of related mitigation programs.

The Integrated Risk Management keeps the Senior Management and Board of Audit & Risk Management Committee ("BARMC") abreast of material risks that require attention and action plan on a regular basis.

(b) Capital management objectives, policies and approach

Capital management risk is defined as the risk of having an insufficient capital base, which undermines execution of strategic objectives, reduces the ability of a company to cope with losses not anticipated, and reduces confidence of the market, policyholders and creditors.

The Company's capital management objective is to maintain effective capital management processes and a prudent level of capital resources, consistent with the risk appetite agreed by the Board from time to time. It is designed to provide the principles to ensure the efficient management of capital where capital resources must be managed in a way which optimises returns to Shareholders, stakeholders and meets the expectation of the regulator.

The capital management strategy of the Company is to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of Shareholders and maintain the level of capital as required by BNM.

On a half-yearly basis, the Company performs stress testing based on several adverse scenarios and stress levels as part of the part of the pro-active 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.

28 TAKAFUL RISK

The risk under any one takaful contract is the possibility that the covered event occurs and the uncertainty of the amount of the resulting claim.

For a portfolio of takaful contracts, the principal risk that the fund faces is that the actual claims and benefit payments exceed the assets of the fund. This could occur because the frequency or severity of claims is greater than estimated. Takaful events are random and the actual number and amount of claims can vary from the level established using statistical techniques.

a) Family Takaful

Takaful risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

The Company's Family Takaful businesses are exposed to a range of takaful risks from various products. In providing financial advisory services coupled with takaful protection, the Company has to manage risks such as mortality (the death of policyholder), morbidity (ill health), persistency, product design and pricing.

The Company's underwriting strategy is designed to ensure risks are well diversified in term of type of risk and the level of covered benefits. This is broadly achieved through the use of medical screening to ensure participants' health condition and family medical history, regular review of actual claims experience as well as detailed claims procedures.

The mortality and morbidity risks are managed through the use of retakaful to transfer excessive risk exposures, appropriate actuarial techniques as well as other mitigation measures.

The table below shows the concentration of Family Takaful actuarial liabilities by type of product.

	Gross	Retakaful	Net
	RM'000	RM'000	RM'000
2012			
Mortgage Reducing Term and Group business	17,773	(14,159)	3,614
Others	1,628	(72)	1,556
Total	19,401	(14,231)	5,170
2011			
Mortgage Reducing Term and Group business	34,778	(31,009)	3,769
Others	26	-	26
Total	34,804	(31,009)	3,795

28 TAKAFUL RISK (CONTINUED)

a) Family Takaful (continued)

As all of the business is derived from Malaysia, the entire Family Takaful actuarial 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 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.

The principles on which the valuation was made were determined by the actuary having regard to the Takaful Act 1984 as well as relevant statutory requirements of the Insurance Regulations 1996 for conventional insurance.

Mortality and total permanent disability assumption was derived based on the understanding of expected experience and industry experience. Lapse rate assumptions are based on a combination of the Company's experience for early duration as well as the understanding of industry experience.

Management expenses assumptions are developed based on the projection of management expenses and new business sales for the next three years. The development of assumptions based on expected experience in three years rather than current experience is due to the current size of the Company and its relatively new operations.

For the investment linked plans, the Company took cognizance of JPI33 Part vii Section V, valuation of liabilities of Investment Linked business. The cash flow reserves were set up using a discounted cash flow method, to ensure that any future negative cash flow resulting from insufficiency of tabarru charges to meet expected benefit outgo are eliminated. Incurred but not reported reserve (IBNR) was set up as a 1/2 month risk charge.

28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivity

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net takaful actuarial liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate takaful actuarial 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.

	Change in assumptions	Impact on gross takaful actuarial liabilities	Impact on net takaful actuarial liabilities	Impact on profit before tax	Impact on equity*
	%	RM'000	RM'000	RM'000	RM'000
2012					
Mortality	+10	6,662	2,929	-	-
Mortality	-10	(5,896)	(2,105)	-	-
Lapse and surrender rates	+10	(542)	(353)	-	-
Lapse and surrender rates	-10	597	395	-	-
Discount rate	+10	(654)	(223)	-	-
Discount rate	-10	706	245	-	-
Investment return	+10	(300)	(21)	-	-
Investment return	-10	293	20	-	-

28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivity (continued)

	Change in assumptions %	Impact on gross takaful actuarial liabilities RM'000	Impact on net takaful actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
2011					
Mortality	+10	4,111	1,170	-	-
Mortality	-10	(3,967)	(1,017)	-	-
Lapse and surrender rates	+10	(87)	(32)	-	-
Lapse and surrender rates	-10	92	34	-	-
Discount rate	+10	(527)	(105)	-	-
Discount rate	-10	642	135	-	-
Investment return	+10	(487)	-	-	-
Investment return	-10	511	-	-	-

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

In the sensitivity analysis above, the impact from changes in best estimate assumptions for the Family Takaful fund is retained within the takaful contract liabilities. The methods used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful

The General Takaful fund is exposed to underwriting risk which includes risk of incurring claims costs that are higher than expected due to the random nature of claims, their frequency, severity and risk of exposure to changes in legal and economic condition. This also could arise from the underpricing of the contributions, which results in the Company having to receive too little contributions to cover for the risks that it underwrites.

These risks are managed through various risk mitigation measures such as retakaful arrangement as well as appropriate actuarial techniques such as pricing.

The table below sets out the concentration of General Takaful contract liabilities, excluding AFS reserve by type of contract.

	2012			2011		
	Gross	Re-takaful	Net	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	1,186	(398)	788	195	(2)	193
Fire	27,399	(16,400)	10,999	14,810	(7,756)	7,054
Marine Cargo, Aviation Cargo and Transit	881	(222)	659	1,103	(708)	395
Miscellaneous	55,794	(34,789)	21,005	27,887	(16,936)	10,951
	85,260	(51,809)	33,451	43,995	(25,402)	18,593

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year. Wherever possible, average link ratio factors over the most recent three years were used for the fire, personal accident and others class of business, with some adjustments in respect of any distortion observed in the claims pattern.

The net contribution liabilities is determined to be the higher of the adjusted net UCR or the net URR including PRAD at the 75% probability of adequacy after allowance for diversification benefit. The risk margin percentages applied to the net URR to derive the PRAD at the 75% probability of adequacy are based on industry experience, allowing for some loadings to take into account of the Company's small size portfolio.

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Sensitivity

The General Takaful claims liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross takaful claims liabilities, profit before tax and equity. The correlation 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.

	Change in assumptions	Impact on gross takaful claims liabilities RM'000	Impact on net takaful claims liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
2012					
ULRs for all business classes for all loss years	+10%	6,042	2,652	-	-
ULRs for Personal Accident class for all loss years	+20%	994	1,679	-	-
ULRs for Fire class for all loss years	+20%	5,452	925	-	-
PRAD for all business classes for all loss years	+20%	867	325	-	-
2011					
ULRs for all business classes for all loss years	+10%	2,782	1,135	-	-
ULRs for Personal Accident class for all loss years	+20%	435	382	-	-
ULRs for Fire class for all loss years	+20%	1,953	649	-	-
PRAD for all business classes for all loss years	+20%	357	137		

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

The method used for deriving sensitivity information and significant assumptions did not change from the previous financial year.

28 TAKAFUL RISK (continued)

(b) General Takaful (continued)

Claims development table

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is the greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Gross General Takaful claims liabilities for 2012

Accident year	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year	28	490	3,204	5,956	21,080	35,591	
One year later	45	446	1,908	5,249	18,211	-	
Two years later	1	126	1,020	4,286	-	-	
Three years later	1	78	979	-	-	-	
Four years later	1	72	-	-	-	-	
Five years later	1	-	-	-	-	-	
Current estimate of cumulative claims incurred	1	72	979	4,286	18,211	35,591	
At end of accident year	1	25	116	357	1,194	2,754	
One year later	1	73	408	2,301	7,562	-	
Two years later	1	67	966	2,732	-	-	
Three years later	1	72	960	-	-	-	
Four years later	1	72	-	-	-	-	
Five years later	1	-	-	-	-	-	
Cumulative payments to-date	1	72	960	2,732	7,562	2,754	
Gross General Takaful claims liabilities	-	-	19	1,554	10,649	32,837	45,059

28 TAKAFUL RISK (continued)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 2012

Accident year	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year	28	241	311	2,508	8,479	13,715	
One year later	21	156	260	2,535	9,797	-	
Two years later	1	74	119	2,126	-	-	
Three years later	1	54	96	-	-	-	
Four years later	1	52	-	-	-	-	
Five years later	1	-	-	-	-	-	
Current estimate of cumulative claims incurred	1	52	96	2,126	9,797	13,715	
At end of accident year	1	25	58	259	1,016	2,119	
One year later	1	54	86	1,114	4,295	-	
Two years later	1	49	93	1,505	-	-	
Three years later	1	52	86	-	-	-	
Four years later	1	52	-	-	-	-	
Five years later	1	-	-	-	-	-	
Cumulative payments to-date	1	52	86	1,505	4,295	2,119	
Net General Takaful claims liabilities	-	-	10	621	5,502	11,596	17,729

29 FINANCIAL RISK

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet the payment obligations. The credit risk and investment activities is monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity in accordance to internal and regulatory investment guidelines and limits.

As date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board and regulators. 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.

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past due nor impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Shareholders' fund								
AFS financial assets								
Government Investment Issues	-	-	-	-	4,192	-	-	4,192
Islamic bonds	15,916	18,910	4,524	-	14,095	-	-	53,445
Equity securities	-	-	-	-	-	4,568	-	4,568
Investment-linked funds	-	-	-	-	-	4,567	-	4,567
Accrued profit	146	102	65	-	61	-	-	374
Loans and receivables	-	-	-	-	-	-	-	-
Other receivables (excluding qardh receivable)	-	-	-	-	557	-	-	557
Cash and cash equivalents	(75)	29,100	-	-	-	-	-	29,025
	15,987	48,112	4,589	-	18,905	9,135	-	96,728

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Shareholders' fund								
2011								
AFS financial assets								
Government Investment Issues	-	-	-	-	4,118	-	-	4,118
Islamic bonds	19,311	24,067	3,519	-	9,069	-	-	55,966
Equity securities	-	-	-	-	-	5,312	-	5,312
Investment-linked funds	-	-	-	-	-	4,000	-	4,000
Accrued profit	27	141	5	-	28	-	-	201
Loans and receivables	-	-	-	-	-	-	-	-
Other receivables (excluding qardh receivable)	-	-	-	-	1,222	-	-	1,222
Cash and cash equivalents	1	28,712	-	-	1	-	-	28,714
	19,339	52,920	3,524	-	14,438	9,312	-	99,533

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
General Takaful fund								
2012								
AFS financial assets								
Islamic bonds	-	1,093	1,509	-	3,604	-	-	6,206
Government Investment Issues	-	-	-	-	1,524	-	-	1,524
Equity securities	-	-	-	-	-	742	-	742
Accrued profit	-	4	20	-	34	-	-	58
Loans and receivables								
Fixed and call deposits	-	352	-	-	-	-	-	352
Accrued profit	-	6	-	-	-	-	-	6
Takaful receivables	-	-	-	-	10,220	-	6,837	17,057
Other receivables	-	-	-	-	314	-	-	314
Retakaful assets	1,048	502	16,971	9,607	23,681	-	-	51,809
Cash and cash equivalents	230	21,302	-	-	5	-	-	21,537
	1,278	23,259	18,500	9,607	39,382	742	6,837	99,605

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
General Takaful fund								
2011								
AFS financial assets								
Islamic bonds	-	613	-	-	100	-	-	713
Government Investment Issues	-	-	-	-	1,521	-	-	1,521
Equity securities	-	-	-	-	-	-	-	-
Accrued profit	-	4	-	-	27	-	-	31
Loans and receivables	-	-	-	-	-	-	-	-
Fixed and call deposits	-	-	341	-	-	-	-	341
Accrued profit	-	-	4	-	-	-	-	4
Takaful receivables	-	-	-	-	4,610	-	8,278	12,888
Other receivables	-	-	-	-	3,862	-	-	3,862
Retakaful assets	543	587	11,304	6,325	6,643	-	-	25,402
Cash and cash equivalents	1,223	1,246	14,505	-	5	-	-	16,979
	1,766	2,450	26,154	6,325	16,768	-	8,278	61,741

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012								
Family Takaful fund								
AFS financial assets								
Islamic bonds	8,733	2,055	4,020	-	2,010	-	-	16,818
Government Investment Issues	-	-	-	-	13,212	-	-	13,212
Equity securities	-	-	-	-		1,603	-	1,603
Accrued profit	135	7	62	-	217	-	-	421
FVTPL financial assets								
Islamic bonds	1,009	1,413	-	-	400	-	-	2,822
Government Investment Issues	-	-	-	-	1,556	-	-	1,556
Structured investments	3,923	-	48,776	-	-	-	-	52,699
Equity securities	-	-	-	-	-	148	-	148
Accrued profit	4	3	-	-	16	-	-	23
Loan and receivables								
Fixed and call deposits	-	10,510	-	-	-	-	-	10,510
Accrued profit	-	76	-	-	-	-	-	76
Takaful receivables	-	-	-	-	1,829	-	1,798	3,627
Retakaful assets	-	902	1,805	-	16,550	-	-	19,257
Other receivables	-	-	-	-	1,676	-	-	1,676
Cash and cash equivalents	4,258	32,055	-	-	10	-	-	36,323
	18,062	47,021	54,663	-	37,476	1,751	1,798	160,771

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011								
Family Takaful fund								
AFS financial assets								
Islamic bonds	3,509	2,079	2,514	-	907	-	-	9,009
Government Investment Issues	-	-	-	-	13,182	-	-	13,182
Equity securities	-	-	-	-	-	1,034	-	1,034
Accrued profit	17	7	4	-	392	-	-	420
FVTPL financial assets								
Islamic bonds	982	2,439	-	-	-	-	-	3,421
Government Investment Issues	-	-	-	-	1,536	-	-	1,536
Structured investments	49,073	27,888	-	-	-	-	-	76,961
Equity securities	-	-	-	-	-	172	-	172
Accrued profit	4	11	-	-	62	-	-	77
Loan and receivables								
Fixed and call deposits	-	-	5,341	-	-	-	-	5,341
Accrued profit	-	-	37	-	-	-	-	37
Takaful receivables	-	-	-	-	4,459	-	-	4,459
Retakaful assets	-	6,217	303	-	26,552	-	-	33,072
Other receivables	-	-	-	-	7	-	-	7
Cash and cash equivalents	478	7,959	9,982	-	10	-	-	18,429
	54,063	46,600	18,181	-	47,107	1,206	-	167,157

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Aging analysis of financial assets past-due but not impaired

	2012 RM'000	2011 RM'000
Takaful Receivables		
61 to 180 days	5,640	8,110
>180 days	2,995	168
	8,635	8,278

Impaired takaful receivables

At 30 June 2012, there are impaired takaful receivables of RM4.178 million (2011: RM6.703 million). Impairment of takaful receivables is performed based on individual assessment of receivables where the contractual payments are in arrears for more than 180 days. No collateral is held as security for any past due or impaired assets.

A reconciliation of the allowance for impairment losses for takaful receivables is as follows:

	2012 RM'000	2011 RM'000
As at 1 July	6,703	1,053
(Write back)/provision for the financial year	(2,525)	5,650
As at 30 June	4,178	6,703

29 FINANCIAL RISK (CONTINUED)

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 endeavours to manage the maturity profiles of these financials instruments to meet financial obligations and working capital requirements.

Maturity profiles of financial assets

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities:

Shareholders' fund	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
AFS financial assets	67,146	3,410	34,755	19,846	9,135	67,146
Other receivables (excluding qardh receivable)	557	557	-	-	-	557
Cash and cash equivalents	29,025	29,025	-	-	-	29,025
	96,728	32,992	34,755	19,846	9,135	96,728
2011						
AFS financial assets	69,597	8,757	39,536	11,992	9,312	69,597
Other receivables (excluding qardh receivable)	1,222	1,222	-	-	-	1,222
Cash and cash equivalents	28,714	28,714	-	-	-	28,714
	99,533	38,693	39,536	11,992	9,312	99,533

Company No.

738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial assets (continued)

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities: (continued)

General Takaful fund	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
AFS financial assets	8,530	665	3,620	3,503	742	8,530
Loan and receivables	358	358	-	-	-	358
Retakaful assets	51,809	51,809	-	-	-	51,809
Takaful receivables	17,057	17,057	-	-	-	17,057
Other receivables	314	314	-	-	-	314
Cash and cash equivalents	21,537	21,537	-	-	-	21,537
	99,605	91,740	3,620	3,503	742	99,605
2011						
AFS financial assets	2,265	31	2,234	-	-	2,265
Loan and receivables	345	345	-	-	-	345
Retakaful assets	25,402	25,402	-	-	-	25,402
Takaful receivables	12,888	12,888	-	-	-	12,888
Other receivables	3,862	3,862	-	-	-	3,862
Cash and cash equivalents	16,979	16,979	-	-	-	16,979
	61,741	59,507	2,234	-	-	61,741

29 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial assets (continued)

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities: (continued)

Family Takaful fund	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
AFS financial assets	32,054	1,433	22,740	6,278	1,603	32,054
FVTPL financial assets	57,248	23,172	28,556	5,371	149	57,248
Loan and receivables	10,586	10,586	-	-	-	10,586
Retakaful assets	19,257	19,257	-	-	-	19,257
Takaful receivables	3,627	3,627	-	-	-	3,627
Other receivables	1,676	1,676	-	-	-	1,676
Cash and cash equivalents	36,323	36,323	-	-	-	36,323
	160,771	96,074	51,296	11,649	1,752	160,771
2011						
AFS financial assets	23,645	2,935	18,204	1,473	1,033	23,645
FVTPL financial assets	82,167	25,282	51,011	5,625	249	82,167
Loan and receivables	5,378	5,378	-	-	-	5,378
Retakaful assets	33,072	33,072	-	-	-	33,072
Takaful receivables	4,459	4,459	-	-	-	4,459
Other receivables	7	7	-	-	-	7
Cash and cash equivalents	18,429	18,429	-	-	-	18,429
	167,157	89,562	69,215	7,098	1,282	167,157

29 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial liabilities

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations.

For takaful contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from the recognised takaful liabilities.

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

Shareholders' fund	Carrying value RM'000	Up to a year* RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
Amount due to related companies	1,497	1,497	-	-		1,497
Other payables	7,951	7,951	-	-	-	7,951
	9,448	9,448	-	-	-	9,448
2011						
Amount due to related companies	919	919	-	-	-	919
Other payables	8,472	8,472	-	-	-	8,472
	9,391	9,391	-	-	-	9,391

29 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

General Takaful fund	Carrying value RM'000	Up to a year* RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
Claims liabilities	45,059	45,059	-	-	-	45,059
Takaful payables	15,229	15,229	-	-	-	15,229
Other payables	273	273	-	-	-	273
Total liabilities	60,561	60,561	-	-	-	60,561
2011						
Claims liabilities	22,894	22,894	-	-	-	22,894
Takaful payables	19,646	19,646	-	-	-	19,646
Other payables	444	444	-	-	-	444
Total liabilities	42,984	42,984	-	-	-	42,984

29 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

Family Takaful fund	Carrying value RM'000	Up to a year* RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2012						
Actuarial liabilities*	143,313	8,843	44,516	3,643	86,311	143,313
Takaful payables	5,917	5,917	-	-	-	5,917
Other payables	4,179	4,179	-	-	-	4,179
Total liabilities	153,409	18,939	44,516	3,643	86,311	153,409
2011						
Actuarial liabilities*	153,364	3,795	73,347	3,614	72,608	153,364
Takaful payables	3,771	3,771	-	-	-	3,771
Other payables	4,593	4,593	-	-	-	4,593
Total liabilities	161,728	12,159	73,347	3,614	72,608	161,728

29 FINANCIAL RISK (CONTINUED)

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 market prices (price risk) or market profit rates (profit rate risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

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 market prices (price risk) or market profit rates (profit rate risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, profit rate risk exposure and liquidity targets.

(i) Profit rate risk

Profit rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market profit rate. This risk arises due to differences in pricing or tenure of investments and liabilities. The profit rate risk is managed through setting the appropriate asset allocation reflecting the liability profile and the availability of the suitable instrument in the investment market.

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.

	30 June 2012		30 June 2011	
	Impact on profit before tax RM'000	Impact equity* RM'000	Impact on profit before tax RM'000	Impact equity* RM'000
Change in variables				
+ 100 basis point of profit rate	-	(1,848)	-	(1,512)
- 100 basis point of profit rate	-	2,007	-	1,592

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

29 FINANCIAL RISK (CONTINUED)

Market risk (continued)

(ii) 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. The Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls.

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 Group's and 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.

	30 June 2012		30 June 2011	
	Impact on profit before tax RM'000	Impact equity* RM'000	Impact on profit before tax RM'000	Impact equity* RM'000
Change in variables				
+ 20% of equity price	-	685	-	797
- 20% of equity price	-	(685)	-	(797)

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

(iii) Operational risks

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.