

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA)  
BERHAD (93745-A)  
(Incorporated in Malaysia)  
Statement by Directors' and Audited Financial Statements  
31 December 2007**

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

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**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) 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 year ended 31 December 2007.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is the underwriting of life insurance business.

There has been no significant change in the nature of the activity during the year.

**RESULTS**

|                         |                |
|-------------------------|----------------|
|                         | <b>RM'000</b>  |
| Net profit for the year | <u>502,245</u> |

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statement of changes in equity.

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

**DIVIDENDS**

The amount of dividends paid by the Company since 31 December 2006 were as follows:

|  |                |
|--|----------------|
|  | <b>RM'000</b>  |
| In respect of the financial year ended 31 December 2006 as reported in the Directors' report of that year:                                       |                |
| Final dividend of RM2.64 per ordinary share less 27% taxation, on 100,000,005 ordinary shares, declared on 23 March 2007 and paid on 30 May 2007 | <u>192,720</u> |

At the forthcoming Annual General Meeting, final dividends in respect of the financial year ended 31 December 2007 of RM6.787 per ordinary share on 100,000,005 ordinary shares less 26% taxation amounting to a net dividend payable of RM502,238,025 (RM5.022 per ordinary share) [2006: RM192,720,010 (RM1.927 per ordinary share)] will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect these proposed dividends. Such dividends, if approved by the shareholders, will be accounted for in the shareholders' equity as appropriations of retained profits in the next financial year ending 31 December 2008.

**DIRECTORS**

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

Michael Wong Pakshong (Chairman)  
 Tan Beng Lee  
 Datuk Fong Weng Phak  
 Lee Kong Yip  
 Dato' Albert Yeoh Beow Tit  
 Foong Soo Hah  
 Wong Ah Kow (resigned on 17 August 2007)

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the options over shares in the Company's ultimate holding company as disclosed in this report.

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in the Company's ultimate holding company, Overseas-Chinese Banking Corporation Limited ("OCBC") during the financial year were as follows:

|   | <b>Number of ordinary stock units of S\$0.50 each</b> |                 |                   |             |                                       |
|---|---|-----------------|-------------------|-------------|---------------------------------------|
|   | <b>As at<br/>1 January<br/>2007</b>                   | <b>Acquired</b> | <b>Addition #</b> | <b>Sold</b> | <b>As at<br/>31 December<br/>2007</b> |
| <b>Ultimate holding company</b>                     |   |                 |                   |             |                                       |
| <b>Overseas-Chinese Banking Corporation Limited</b> |   |                 |                   |             |                                       |
| Michael Wong Pakshong                               |   |                 |                   |             |                                       |
| - Direct interest                                   | 127,198   | -               | 4,800             | -           | 131,998                               |
| - Deemed interest                                   | 59,998  | -               | -                 | -           | 59,998                                |
| Tan Beng Lee  | 350,000   | 70,000          | -                 | -           | 420,000                               |
| Datuk Fong Weng Phak                                | 76,276  | -               | -                 | -           | 76,276                                |
| Lee Kong Yip  | 150,000   | -               | -                 | 40,000      | 110,000                               |
| Dato' Albert Yeoh Beow Tit                          | 213,783   | 548,552         | -                 | 370,000     | 392,335                               |
| Foong Soo Hah                                       | 136,440   | -               | -                 | 30,000      | 106,440                               |

**DIRECTORS (CONT'D.)**

|   | <b>Number of Class E preference shares of S\$0.01 each</b> |                 |                    |             |
|---|--|-----------------|--------------------|-------------|
|   | <b>As at</b>   |                 | <b>As at</b>       |             |
|   | <b>1 January</b>   |                 | <b>31 December</b> |             |
|   | <b>2007</b>  | <b>Acquired</b> | <b>Sold</b>        | <b>2007</b> |
| <b>Ultimate holding company</b>                     |  |                 |                    |             |
| <b>Overseas-Chinese Banking Corporation Limited</b> |  |                 |                    |             |

|                            |        |   |       |       |
|----------------------------|--------|---|-------|-------|
| Dato' Albert Yeoh Beow Tit | 11,163 | - | 5,600 | 5,563 |
|----------------------------|--------|---|-------|-------|

|   | <b>Number of Class G preference shares of S\$0.01 each</b> |                 |                    |             |
|---|--|-----------------|--------------------|-------------|
|   | <b>As at</b>   |                 | <b>As at</b>       |             |
|   | <b>1 January</b>   |                 | <b>31 December</b> |             |
|   | <b>2007</b>  | <b>Acquired</b> | <b>Sold</b>        | <b>2007</b> |
| <b>Ultimate holding company</b>                     |  |                 |                    |             |
| <b>Overseas-Chinese Banking Corporation Limited</b> |  |                 |                    |             |

|                            |        |       |       |        |
|----------------------------|--------|-------|-------|--------|
| Michael Wong Pakshong      | 22,000 | -     | -     | 22,000 |
| Tan Beng Lee               | 1,050  | -     | -     | 1,050  |
| Datuk Fong Weng Phak       | 14,891 | -     | -     | 14,891 |
| Dato' Albert Yeoh Beow Tit | 18,012 | 6,959 | 5,232 | 19,739 |

|   | <b>Number of options over ordinary stock units of S\$0.50 each</b> |                |                    |             |
|---|--|----------------|--------------------|-------------|
|   | <b>As at</b>   |                | <b>As at</b>       |             |
|   | <b>1 January</b>   |                | <b>31 December</b> |             |
|   | <b>2007</b>  | <b>Granted</b> | <b>Exercised</b>   | <b>2007</b> |
| <b>Ultimate holding company</b>                     |  |                |                    |             |
| <b>Overseas-Chinese Banking Corporation Limited</b> |  |                |                    |             |

|                            |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| Tan Beng Lee               | 365,400 | 112,000 | 155,994 | 321,406 |
| Dato' Albert Yeoh Beow Tit | 600,360 | 50,000  | 517,720 | 132,640 |
| Foong Soo Hah              | 112,752 | 35,000  | -       | 147,752 |

# Issue of ordinary shares as part of remuneration for Non Executive Directors of OCBC for the financial year ended 31 December 2006.

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Note 20(i) and (ii) to the financial statements) by reason of a contract made by the Company or a related corporation with any 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 required to be disclosed under Section 169(8) of the Companies Act, 1965.

Mr Michael Wong Pakshong retires pursuant to Section 129(2) of the Companies Act, 1965 and does not offer himself for re-appointment at the next Annual General Meeting of the Company.

In accordance with Article 67 of the Company's Articles of Association, Dato' Albert Yeoh Beow Tit and Mr Foong Soo Hah would retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## **CORPORATE GOVERNANCE**

The Company has taken concerted steps to comply with Bank Negara Malaysia's JPI/GPI 25 (Consolidated) on "Prudential Framework of Corporate Governance for Insurers" including the best practices referred to in the guideline. The Company is committed to the principles in this guideline to ensure public accountability at all times.

## **OTHER STATUTORY INFORMATION**

- (a) Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Company misleading.

**OTHER STATUTORY INFORMATION (CONT'D.)**

- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability in respect of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
  - (i) no contingent liability 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 its obligations as and when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f) above, contingent and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

**AUDITORS**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 4 February 2008.

Lee Kong Yip

Foong Soo Hah

## **CORPORATE GOVERNANCE (as referred to in the Directors' Report)**

Great Eastern Life Assurance (Malaysia) Berhad (the “Company”) is committed to uphold good corporate governance practices in conformity with Bank Negara Malaysia (“BNM”) Guidelines, JPI/GPI: 25 (Consolidated) on “Prudential Framework of Corporate Governance for Insurers” dated 18 April 2006 (the “Framework”). The Framework is divided into six main sections namely, Board Responsibility and Oversight, Management Accountability, Corporate Independence, Internal Controls and Operating Risk Management, Public Accountability and Financial Reporting. There are 33 principles in the Framework.

The Company adopts management practices that are consistent with the Framework. It has also complied with the prescriptive applications and most of the best practices principles prescribed in the Framework.

### **PART A. BOARD RESPONSIBILITY AND OVERSIGHT**

#### **Board's Conduct of its Affairs, Composition and Balance**

The Company's Board of Directors (the “Board”) has overall responsibility of leading the Company and providing strategic directions in terms of corporate objectives and business strategies to the Company.

The Company’s Board of Directors as at 31 December 2007 consists of six Directors as set out below:

| <b>Members</b>                             | <b>Status of directorship</b>          |
|--|--|
| Mr Michael Wong Pakshong - Chairman        | Independent Non-Executive Director     |
| Mr Tan Beng Lee                            | Non-Independent Non-Executive Director |
| Datuk Fong Weng Phak                       | Independent Non-Executive Director     |
| Mr Lee Kong Yip                            | Independent Non-Executive Director     |
| Dato’ Albert Yeoh Beow Tit                 | Non-Independent Non-Executive Director |
| Mr Foong Soo Hah – Chief Executive Officer | Executive Director                     |

Apart from Mr Foong Soo Hah, who is the Chief Executive Officer (“CEO”), all of the other Directors are Non-Executive Directors. At least half of the Non-Executive Directors are Independent Directors. All Directors meet the prescribed maximum limit of other directorships held. (During the year, there was one Non-Independent Non-Executive Director, Mr Wong Ah Kow, who resigned from the Board with effect from 17 August 2007.)

The Directors are from diverse backgrounds and have a wide range of business, financial and management experience to lead the Company. Collectively with such experience and knowledge capabilities, they provide the necessary core competencies to the Company, in areas that include insurance (four members of the Board are qualified or experienced in insurance), banking, financial services, actuarial science and accounting. Directors who serve on the Audit Committee and other Board Committees are appropriately qualified to discharge their responsibilities.

**PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)****Board's Conduct of its Affairs, Composition and Balance (Cont'd.)**

The appointment and re-appointment of Directors to the Company's Board has been approved by BNM. On a quarterly basis, the Directors are subject to an internal declaration to review their status of compliance with Part XII of the Insurance Regulations 1996 on their fulfilment of the minimum criteria of a “fit and proper person”.

In accordance with the Articles of Association of the Company, all newly appointed Directors of the Company are subject to re-election by Shareholders at the next Annual General Meeting of the Company. The Articles further provide for one third of the remaining directors to retire from office by rotation and if eligible, to be re-elected at the Annual General Meeting of the Company. Directors whose terms of appointment are close to expiry would be nominated for re-appointment/re-election following the provisions of JPI/GPI 1 (Consolidated) on “Minimum Standards for Prudential Management of Insurers” dated 18 April 2006 (“JPI/GPI 1”) and JP3: 1/2007 on “Amendments to the Application Forms BNM/JPI/APP1, BNM/JPI/APP2, BNM/APP/TO and BNM/DIR/TO for the Appointment/Reappointment of Chairman, Directors, and Chief Executive Officers”. Re-appointment or re-election of Directors are made with the prior approval of BNM.

The Board meets once every two months. During the financial year 2007, the Board met six times and the attendance of the Directors were as follows:-

| Name                                | Number of Board Meetings |                |
|-------------------------------------|--------------------------|----------------|
|                                     | Attended                 | Percentage (%) |
| Mr Michael Wong Pakshong (Chairman) | 6                        | 100            |
| Mr Tan Beng Lee                     | 5                        | 83.33          |
| Datuk Fong Weng Phak                | 6                        | 100            |
| Mr Lee Kong Yip                     | 6                        | 100            |
| Dato' Albert Yeoh Beow Tit          | 6                        | 100            |
| Mr Foong Soo Hah                    | 6                        | 100            |

*(Mr Wong Ah Kow who resigned from the Board on 17 August 2007, attended all four (4) Board meetings prior to his resignation).*

The Board has in place a formal and transparent procedure for the appointment and re-appointment of Directors and CEO. Proposals for the appointment of new Directors to the Board, the CEO and the Key Senior Officers (“KSOs”) are reviewed by the Nominating Committee (“NC”). The Board after considering the nominees proposed by the NC, appoints the Directors, the CEO and the KSOs.

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Board's Conduct of its Affairs, Composition and Balance (Cont'd.)**

Besides carrying out its statutory responsibilities, the Board approves the annual business and strategic plans of the Company. It oversees the management of the Company's business affairs, and regularly reviews the financial performance of the Company. Matters reserved for the Board's decision include corporate restructuring, major acquisition and disposal of assets by the Company, all material related party transactions, authority levels for the Company's core functions, outsourcing of core business functions and corporate policies on investment, underwriting, reinsurance, claims management and risk management.

The Directors have all been issued with a Directors' Handbook on the Company, Code of Ethics for Directors and a full set of the guidelines and circulars issued by BNM since 1997. The Company's Directors have all attended the Corporate Directors' Training Programme conducted under the auspices of the Companies Commission of Malaysia.

The Company has an orientation training program for its newly appointed Directors. The training serves to familiarise the Directors with the life insurance industry as well as the Company's business practices, accounting by funds, compliance controls, risks overview and corporate governance practices. On an on-going basis, Directors kept abreast of the developments in market place through attendance of relevant education programmes and seminars. Directors are also promptly updated with any policy and administrative changes or new regulatory requirements issued by BNM.

### **Chairman and Chief Executive Officer**

The roles of the Chairman and the CEO are distinct and separate, with clear division of responsibility between them to ensure an appropriate balance of authority, increased accountability and greater capacity of the Board for independent decision making. For the financial year 2007, the Company's Chairman, Mr Michael Wong Pakshong, was an Independent Non-Executive Director; the CEO was Mr Foong Soo Hah. The Chairman and CEO are not related to each other.

The Company's Chairman leads the Board and fosters the Board's effectiveness. The Chairman, with the assistance of the Company Secretary, facilitates the convening of Board meetings. He sets guidelines and monitors the flow of information from Management to the Board to ensure that all material information provided to the Directors are timely and clear, to facilitate the Board's consideration of such matters. His responsibilities also include facilitating robust discussions and deliberations in Board meetings, and encouraging constructive relations between Executive and Non-Executive Directors and between the Board and Management. He promotes high standards of corporate governance with the full support of the other Directors, the Company Secretary and Management.

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Chairman and Chief Executive Officer (Cont'd.)**

The CEO manages the Company and oversees its business operations in accordance with the Group's strategy, plans and policies to achieve the corporate performance and financial goals, ensuring inter alia operational and organisational efficiency, profit performance and effective risk management.

The CEO manages the businesses of the Company and implements the Board's decisions, with the assistance of the Senior Management Team of the Company. Collectively they are responsible for the day-to-day operations and administration of the Company.

### **Access to Information**

Board members are provided with adequate and timely information and reports, including background explanatory information relating to matters brought before the Board, forecasts, regular internal financial statements of the Company and explanations of material variances between actual results and budgets. The Directors have independent access to the Company Secretary and the Senior Management Team.

### **Board Committees**

The Board has established specialised Board Committees to assist it in carrying out its responsibilities and oversight over the Company's operations more effectively. These Board Committees are Audit Committee, Board Risk Committee, Nominating Committee and Remuneration Committee.

These Committees operate under clearly defined terms of reference approved by the Board and minutes of meetings of these Committees are tabled periodically at the Board meetings.

### **Audit Committee**

The Audit Committee ("AC") comprises three members, as follows, all of whom are Independent Non-Executive Directors:-

Mr Lee Kong Yip - Chairman  
Mr Michael Wong Pakshong  
Datuk Fong Weng Phak

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Audit Committee (Cont'd.)**

The members of the AC are appropriately qualified to discharge their responsibilities as prescribed by the Framework.

The AC held six meetings in 2007 and carried out functions specified in the Companies Act 1965, Insurance Act 1996, Insurance Regulations, BNM Guidelines and other relevant guidelines and regulations. Attendance at meetings in 2007 by all the Members were 100%.

The functions performed by the Company's AC included the following:-

- (a) Reviewed with the internal and external auditors their audit plans, their evaluation of the system of internal accounting controls, their audit findings and Management's response to those findings;
- (b) Reviewed the scope and results of the internal audit procedures and resources needed.
- (c) Reviewed with the internal and external auditors the effectiveness of the material internal controls including the financial controls of the Company;
- (d) Reviewed with the external auditors the audited financial statements of the Company for the financial year and the auditors' report thereon and thereafter submitted the audited financial statements to the Board for consideration and approval;
- (e) Reviewed the assistance given by the officers to the auditors;
- (f) Reviewed the scope and results of the audit procedures and its cost effectiveness and reviewed the independence and objectivity of the external auditors before nominating the external auditors for re-appointment;
- (g) Reviewed related party transactions to ascertain that the terms of such transactions were on arm's length basis, on normal commercial terms and not prejudicial to the interests of the Company and its shareholders; and
- (h) Reviewed with the external auditors and the Senior Management, the impact of new or proposed changes in accounting standards, policies or regulatory requirements on the financial statements.

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Audit Committee (Cont'd.)**

The nature and extent of the non-audit service, if any, provided by the external auditors would not affect their independence as external auditors of the Company.

The AC has independent access to the Company's Senior Management and Internal Auditors. Resources are made available to the AC to enable it to discharge its functions. The internal audit function is independent of the activities it audits. The Chief Internal Auditor reports functionally to the AC and administratively to the CEO.

### **Board Risk Committee**

The Board Risk Committee ("BRC") supports the Board in the overall risk management oversight of the Company. It comprises three members, as follows, all of whom are Non-Executive Directors and its Chairman is an Independent Director:-

Datuk Fong Weng Phak - Chairman  
Mr Lee Kong Yip  
Dato' Albert Yeoh Beow Tit

The BRC meets at least four times a year. In 2007, it held six meetings and the attendance by the Members were as follows:-

Datuk Fong Weng Phak (6 of 6), Mr Lee Kong Yip (6 of 6) and Dato' Albert Yeoh Beow Tit (5 of 6). During the year, Mr Wong Ah Kow who resigned from the Board on 17 August 2007, also stepped down as a member of the BRC. Mr Wong Ah Kow had attended all BRC meetings (4 of 4) prior to his resignation.

The BRC is responsible for the following:-

- (a) To review and recommend to the Board for approval, all capital management, asset liability management, investment risk management, insurance risk management, operational risk management and overall enterprise risk management strategies, policies, guidelines and limits setting;
- (b) To review proposals to purchase/dispose properties in accordance with prescribed guidelines, taking into account property trends and to recommend to the Board for approval;
- (c) To monitor the implementation and ensure the adequacy of resources for the performance of capital management, asset liability management, investment risk management, insurance risk management, operational risk management and overall enterprise risk management activities and approved strategies;

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Board Risk Committee (Cont'd)**

- (d) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- (e) To ensure that adequate infrastructure, resources and systems are in place for effective risk management and ensuring that staff responsible for implementing risk management systems perform those duties independently of the insurer's risk-taking activities;
- (f) To establish Management sub-committees to enhance implementation or review of investment and any business processes, including but not limited to equity, fixed income, cash, loans including policy loans, property, derivatives, any other assets, operational systems and processes, and to ensure that all such sub-committees adopt and implement the appropriate risk management policies; and
- (g) To review Management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

### **Nominating Committee**

The Nominating Committee ("NC") comprises five Non-Executive Directors, as follows, and the Chairman of the NC is an Independent Director:-

Datuk Fong Weng Phak - Chairman

Mr Michael Wong Pakshong

Mr Tan Beng Lee

Mr Lee Kong Yip

Dato' Albert Yeoh Beow Tit

The members of the NC possess the appropriate mix of skills and experience, and are appropriately qualified to discharge their responsibilities.

The NC meets at least once a year. In 2007, it held four meetings and the attendance by all Members were 100%.

With the endorsement of the Board, the NC has established the minimum requirements for the Board and the CEO to perform their responsibilities effectively following statutory and regulatory requirements.

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Nominating Committee (Cont'd.)**

The NC is entrusted with the responsibility of proposing new nominees for appointment to the Board to ensure that nominations of new Directors are made in the best interest of the Company and its shareholders. Apart from nomination of new Directors, the NC is also responsible for proposing nominees for the positions of CEO and KSOs of the Company. The procedures on such nomination and appointment including re-appointment have been put in place and approved by the Board. These have been drawn up in line with the prescribed regulatory and legal requirements.

The NC also recommends the appointment, re-appointment and re-election of Directors to the Board and assesses the mix of skills, experience and competencies that Directors should bring to the Board. The NC makes recommendations to the Board on all such nominations of Directors as well as nominations to fill up Board Committees.

On an annual basis, the NC reviews the Board's structure, size and composition and makes recommendations to the Board with regards to any changes that are deemed necessary.

The NC has in place a mechanism to carry out the Board-approved process for assessing the effectiveness of the Board as a whole and of the Board Committees, and present its findings to the Board. No Director was involved in the assessment of his own contribution to the effectiveness of the Board.

Whenever applicable and consistent with the prescribed Framework, the NC's recommendations would be made in consultation with the NC of the holding company, taking into consideration the contribution of the Directors and of the CEO and KSOs in discharging their duties for the benefit of the Company.

### **Remuneration Committee**

The Remuneration Committee ("RC") comprises three Non-Executive Directors, as follows, and the Chairman of the RC is an Independent Director:-

Datuk Fong Weng Phak - Chairman  
Mr Tan Beng Lee  
Mr Lee Kong Yip

## **PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONT'D.)**

### **Remuneration Committee (Cont'd.)**

The RC meets at least once a year. In 2007, it held five meetings and the attendance by the Members were as follows:-

Datuk Fong Weng Phak (5 of 5), Mr Tan Beng Lee (4 of 5) and Mr Lee Kong Yip (5 of 5).

A Board-approved Framework on Remuneration for Directors, CEO and KSOs is in place. The RC is charged with the responsibility of reviewing and recommending to the Board the remuneration packages of Directors, CEO and KSOs that are appropriate to attract and retain Directors, CEO and KSOs of the calibre needed to manage the Company successfully.

Non-Executive Directors are paid Directors' fees appropriate to their level of contribution. Directors' fees are recommended by the Board for approval at the Company's Annual General Meeting ("AGM").

The RC reviews the Directors' remuneration on an annual basis and makes recommendations to the Board for any changes. No Director was involved in deciding his own remuneration.

Whenever applicable and consistent with the Framework, the RC's recommendations will be made in consultation with the RC of the holding company, taking into consideration the contributions of the Directors and of the CEO and KSOs in discharging their duties for the benefit of the Company and of the Group.

## **PART B. MANAGEMENT ACCOUNTABILITY**

There is a clear division of responsibilities between top management positions. The Company has an organization structure that is well documented and clearly establishes the job description and authority limits between the senior management, line management and executive employees. All changes to the organization structure are communicated to all staff via the Company's StaffNet.

All disclosures of interests in credit facilities and property under Sections 54 and 55 of the Insurance Act, 1996, were made consistently by the Directors and relevant officers of the Company. All Tender and Investment activities of the Company were conducted at arm's length and on commercial terms.

All policies relating to underwriting, claims, reinsurance and corporate communications were approved by the Board. The policy on corporate communications is reviewed on an annual basis.

The business goals, annual budget, business plans and goals setting are reviewed annually by the CEO with the Senior Management Team and shared with the relevant executives. The same information is also made available to all staff via the StaffNet.

### **PART C. CORPORATE INDEPENDENCE**

The Company has met all the requirements of JPI/GPI 19 (Consolidated) on related party transactions of a material nature. All material related party transactions are disclosed in the audited financial statements in accordance with FRS 124. Please refer to Note 29 in the Company's financial statements. The Board had set a more stringent requirement that all related party transactions irrespective of materiality be submitted to the Audit Committee for review before seeking the Board's approval/notation.

### **PART D. INTERNAL CONTROLS AND OPERATING RISK MANAGEMENT**

The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and that the Company has effective and efficient operations, risk management and internal controls, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements.

The Company is pleased to inform that all new requirements under BNM's guideline on Management of IT Environment (GPIS1) which superseded JPI/GPI 7 on EDP Security Controls, including those related to Business Resumption and Disaster Recovery have been complied with.

The Company has in place a policy on authority limits for trading, exposure and counter-party exposure set at various levels with limits which are more stringent than the statutory limits prescribed. Under the Investment Policy for Derivatives (the Company currently does not invest in derivatives products), prior approval of the Board of Directors will be sought on a case-by-case basis, if the need arises. The Company has complied with the specification of admitted assets pursuant to Section 46(2) of the Insurance Act, 1996. All investment limits and transactions are monitored by the Compliance Department.

For reinsurance programme, a Reinsurance Management Strategy ("RMS") for the insurance risks covered by the Company is in place. The RMS defines the responsibility of the Board of Directors/Management in managing and operating the reinsurance programme. The yearly report on RMS is reviewed by the Senior Management Team and the Board Risk Committee, and approved by the Board of Directors.

All new life insurance products are governed under the Company's Product Development and Pricing Policy and a Management Committee has been established and authorised by the Board of Directors to approve new life insurance products. All new life insurance products have been certified by the Appointed Actuary.

**PART D. INTERNAL CONTROLS AND OPERATING RISK MANAGEMENT (CONT'D.)**

The Directors, CEO and Senior Management of the Company are committed to maintaining a risk-conscious culture in the Company. The Company's Enterprise Risk Management Framework known as RK20.12 that has been put in place since 2005, continues to be enhanced to reflect best practice. This framework is aimed at guiding on various broad aspects of risk management including embedding sound risk management practices and culture within the business and to ensure that the Company continues to expand its business across markets with the right risk management discipline, practices and processes in place. Under this framework, the BRC and the Senior Management Team review the Company's risk profile on a half-yearly basis.

The disclosures of the Company's risk management policies are set out under Note 30 in the Company's financial statements.

**Internal Audit**

The Company has an Internal Audit Department, which assists the Audit Committee in discharging its duties and responsibilities. The requirements of the BNM Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institution (JPI/GPI 13 and JPI/GPI 13(Revised)) have been met. The Audit Committee reviews the yearly internal audit plan and the audit reports and follow-up actions on audit observations made by the Internal Auditors.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by internal audit function, ensures that corrective actions, where necessary, are taken in a timely manner. All audit reports are submitted to the Audit Committee within one month of completion of field work. Audit findings and recommendations are communicated to Senior Management and monitored until all audit findings are followed-up and resolved.

In terms of segregation of duties, procedures are in place to ensure that staff are not assigned with potential conflicting responsibilities, relating to among others, approval, disbursements and administration of policies, premium or investment matters.

**PART E. PUBLIC ACCOUNTABILITY AND FAIR PRACTICES**

The Company has complied with the provisions relating to policies under Parts XII and XV of the Insurance Act, 1996. All of the Company's staff and members of the field force are required to comply with the Company's internal policy and with the Code of Ethics and Conduct issued by BNM as well as the circulars by Life Insurance Association of Malaysia.

## **PART E. PUBLIC ACCOUNTABILITY AND FAIR PRACTICES (CONT'D.)**

Measures to make members of the public aware of avenues under which they can appeal against the Company's practices or decisions if required, include a written disclosure in the policy contract that provides relevant information relating to the Financial Mediation Bureau and BNM's Consumer and Market Conduct Department. This is in compliance with the requirements of JPI/GPI 14 on unfair claims settlement.

The BNM Guidelines on Unfair Practices in Insurance Business, JPI/GPI 28 ("JPI/GPI 28") was issued as part of a cohesive effort to promote higher standards of transparency, professionalism, greater market discipline and accountability in the conduct of insurance business and protection of policy owners. The Company has implemented measures to enhance compliance of requirements prescribed in JPI/GPI 28. As part of its commitment and accountability to provide effective and fair services, a Centralised Complaint Unit has been established in accordance with the BNM's Circular on Establishment of a Centralised Complaint Unit by Insurer, JPI 10/2003.

All sales illustrations, marketing materials and policy contracts of products are in compliance with requirements by BNM and filed with BNM for approval.

The Company has established an Anti-Money Laundering Framework in accordance with the relevant BNM Guidelines and Circulars to be adhered to by all staff, agents, brokers and other intermediaries so as to prevent the Company from being used as an intermediary in any money laundering of funds in the financial system. The Company is committed in implementing measures towards fulfilling its duty of vigilance and diligence on anti-money laundering.

## **PART F. FINANCIAL REPORTING**

The Board has overall oversight responsibility to ensure that the Company's accounting records are properly kept and that the Company's financial statements are prepared in accordance with approved accounting standards in Malaysia, so as to give a true and fair view of the of the Company's financial position. The Company's financial statements also comply with the relevant regulatory requirements.

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD  
(Incorporated in Malaysia)**

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

We, Lee Kong Yip and Foong Soo Hah, being two of the Directors of Great Eastern Life Assurance (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 20 to 87 are drawn up in accordance with applicable Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2007 and of the results and the cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 4 February 2008.

Lee Kong Yip

Foong Soo Hah

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

I, Lee Yee Lam, being the officer primarily responsible for the financial management of Great Eastern Life Assurance (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 20 to 87 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.

Subscribe and solemnly declared by  
the abovenamed Lee Yee Lam at  
Kuala Lumpur in the Federal Territory  
on 4 February 2008

Lee Yee Lam

Before me,

93745-A

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD  
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 20 to 87. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Company as at 31 December 2007 and of the results and the cash flows of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) 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.

Ernst & Young  
AF: 0039  
Chartered Accountants

Choong Mei Ling  
No. 1918/09/08(J)  
Partner

Kuala Lumpur, Malaysia  
4 February 2008

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**BALANCE SHEET AS AT 31 DECEMBER 2007**

|   | Note | 2007<br>RM'000           | 2006<br>RM'000           |
|---|------|--------------------------|--------------------------|
| <b>ASSETS</b>   |      |                          |                          |
| <b>General business and shareholders' fund assets</b>                 |      |                          |                          |
| Property, plant and equipment   | 3    | -                        | -                        |
| Investments   | 5    | 275,315                  | 114,421                  |
| Receivables   | 9    | 674,249                  | 355,347                  |
| Deferred tax assets   | 13   | -                        | 105                      |
| Cash and bank balances  |      | 178                      | 282                      |
| <b>Total general business and shareholders' fund assets</b>           |      | <u>949,742</u>           | <u>470,155</u>           |
| <b>Total life business assets (page 24)</b>                           |      | <u>32,874,461</u>        | <u>29,123,883</u>        |
| <b>TOTAL ASSETS</b>   |      | <u><u>33,824,203</u></u> | <u><u>29,594,038</u></u> |
| <b>LIABILITIES</b>  |      |                          |                          |
| <b>General business and shareholders' fund liabilities</b>            |      |                          |                          |
| Provision for outstanding claims                                      | 10   | 68                       | 105                      |
| Payables  | 11   | 134,460                  | 5,870                    |
| Deferred tax liabilities  | 13   | 117                      | -                        |
| Tax payable   |      | 87,824                   | 46,432                   |
| <b>Total general business and shareholders' fund liabilities</b>      |      | <u>222,469</u>           | <u>52,407</u>            |
| <b>Total life business liabilities (page 24)</b>                      |      | <u>3,747,497</u>         | <u>2,938,282</u>         |
| <b>TOTAL LIABILITIES</b>  |      | <u><u>3,969,966</u></u>  | <u><u>2,990,689</u></u>  |
| <b>INSURANCE RESERVES</b>   |      |                          |                          |
| Unearned premium reserves   |      | -                        | -                        |
| Life policyholders' fund  | 14   | 28,115,144               | 25,553,177               |
| Unitholders' accounts   | 26   | 1,011,820                | 632,424                  |
| <b>TOTAL INSURANCE RESERVES</b>                                       |      | <u><u>29,126,964</u></u> | <u><u>26,185,601</u></u> |
| <b>SHAREHOLDERS' EQUITY</b>   |      |                          |                          |
| Share capital   | 15   | 100,000                  | 100,000                  |
| General policyholders' fund (page 23)                                 |      | 434                      | 434                      |
| Reserves  |      | 626,839                  | 317,314                  |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                     |      | <u><u>727,273</u></u>    | <u><u>417,748</u></u>    |
| <b>TOTAL LIABILITIES, INSURANCE RESERVES AND SHAREHOLDERS' EQUITY</b> |      | <u><u>33,824,203</u></u> | <u><u>29,594,038</u></u> |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

|                            | Note | Share<br>Capital<br>RM'000 | Retained<br>Profit<br>RM'000 | Total<br>RM'000       |
|----------------------------|------|----------------------------|------------------------------|-----------------------|
| <b>At 1 January 2006</b>   |      | 100,000                    | 284,806                      | 384,806               |
| Net profit for the year    |      | -                          | 313,308                      | 313,308               |
| Dividends                  | 16   | -                          | (280,800)                    | (280,800)             |
| <b>At 31 December 2006</b> |      | <u>100,000</u>             | <u>317,314</u>               | <u>417,314</u>        |
| Net profit for the year    |      | -                          | 502,245                      | 502,245               |
| Dividends                  | 16   | -                          | (192,720)                    | (192,720)             |
| <b>At 31 December 2007</b> |      | <u><u>100,000</u></u>      | <u><u>626,839</u></u>        | <u><u>726,839</u></u> |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

|  | <b>Note</b> | <b>2007</b><br><b>RM'000</b> | <b>2006</b><br><b>RM'000</b> |
|--|-------------|------------------------------|------------------------------|
| Operating Revenue                              | 17          | <u>5,737,430</u>             | <u>5,324,929</u>             |
| Shareholders' fund:                            |             |                              |                              |
| Investment income                              | 18          | 9,441                        | 5,402                        |
| Other operating income - net                   | 19          | 5,642                        | 510                          |
| Management expenses                            | 20          | <u>(2,499)</u>               | <u>(142)</u>                 |
|  |             | 12,584                       | 5,770                        |
| Transfers from/(to) Insurance Revenue accounts |             |                              |                              |
| - Life business (page 25)                      |             | 676,102                      | 429,873                      |
| - General business (page 23)                   |             | <u>238</u>                   | <u>(340)</u>                 |
| Profit before taxation                         |             | 688,924                      | 435,303                      |
| Taxation                                       | 21          | <u>(186,679)</u>             | <u>(121,995)</u>             |
| Net profit for the year                        |             | <u>502,245</u>               | <u>313,308</u>               |
| Earnings per share (sen)                       |             |                              |                              |
| - Basic  | 22          | <u>502</u>                   | <u>313</u>                   |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**GENERAL INSURANCE REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

|  | Note | 2007<br>RM'000 | 2006<br>RM'000 |
|--|------|----------------|----------------|
| Gross premium  | 17   | -              | (2)            |
| Reinsurance  |      | -              | -              |
| Net premium  |      | -              | (2)            |
| Decrease in unearned premium reserves                        |      | -              | -              |
| Earned premium   |      | -              | (2)            |
| Net claims recovered/(paid)                                  | 23   | 201            | (369)          |
| Underwriting surplus/(deficit) before<br>management expenses |      | 201            | (371)          |
| Management expenses  | 20   | (10)           | (20)           |
|  |      | 191            | (391)          |
| Investment income  | 18   | 47             | 51             |
| Other operating income/expenses - net                        | 19   | -              | -              |
|  |      | 238            | (340)          |
| Transferred (to)/from income statement (page 22)             |      | (238)          | 340            |
| Fund as at 1 January   |      | 434            | 434            |
| Fund as at 31 December (page 20)                             |      | 434            | 434            |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**LIFE FUND BALANCE SHEET AS AT 31 DECEMBER 2007**

|   | Note | 2007<br>RM'000           | 2006<br>RM'000           |
|---|------|--------------------------|--------------------------|
| <b>ASSETS</b>   |      |                          |                          |
| Property, plant and equipment                                 | 3    | 464,991                  | 487,063                  |
| Investment properties   | 4    | 280,382                  | 166,988                  |
| Investments   | 5    | 26,402,406               | 23,246,867               |
| Prepaid land lease payments                                   | 6    | 18,145                   | 15,288                   |
| Intangible assets   | 7    | 147,052                  | 123,794                  |
| Loans   | 8    | 3,803,951                | 3,738,806                |
| Receivables   | 9    | 563,438                  | 552,782                  |
| Tax recoverable   |      | 35,037                   | 35,037                   |
| Deferred taxation   | 12   | -                        | -                        |
| Cash and bank balances  |      | 111,063                  | 111,416                  |
| Investment-linked business assets                             | 26   | 1,047,996                | 645,842                  |
| <b>Total life business assets</b>                             |      | <b><u>32,874,461</u></b> | <b><u>29,123,883</u></b> |
| <b>LIABILITIES</b>  |      |                          |                          |
| Provision for outstanding claims                              | 10   | 258,560                  | 198,022                  |
| Policy benefits   |      | 1,962,315                | 1,685,604                |
| Payables  | 11   | 954,199                  | 605,411                  |
| Agents' retirement benefits                                   | 12   | 419,024                  | 383,803                  |
| Tax payable   |      | 91,852                   | 43,120                   |
| Deferred tax liabilities                                      | 13   | 25,371                   | 8,904                    |
| Investment-linked business liabilities                        | 26   | 36,176                   | 13,418                   |
| <b>Total life business liabilities</b>                        |      | <b><u>3,747,497</u></b>  | <b><u>2,938,282</u></b>  |
| <b>INSURANCE RESERVES</b>                                     |      |                          |                          |
| Life policyholders' fund                                      | 14   | 28,115,144               | 25,553,177               |
| Unitholders' accounts   | 26   | 1,011,820                | 632,424                  |
| <b>Total insurance reserves</b>                               |      | <b><u>29,126,964</u></b> | <b><u>26,185,601</u></b> |
| <b>Total life business liabilities and insurance reserves</b> |      | <b><u>32,874,461</u></b> | <b><u>29,123,883</u></b> |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**LIFE FUND REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

|   | Note | 2007<br>RM'000     | 2006<br>RM'000     |
|---|------|--------------------|--------------------|
| Gross premium                                     | 17   | 4,084,144          | 3,899,319          |
| Reinsurance                                       |      | (89,836)           | (92,879)           |
| Net premium                                       |      | <u>3,994,308</u>   | <u>3,806,440</u>   |
| Claims/policy benefits paid and payable:          |      |                    |                    |
| Death   |      | (197,058)          | (179,264)          |
| Maturity  |      | (772,490)          | (409,282)          |
| Surrender   |      | (529,936)          | (508,935)          |
| Cash bonus  |      | (354,300)          | (276,241)          |
| Others  |      | (606,335)          | (538,244)          |
|   |      | <u>(2,460,119)</u> | <u>(1,911,966)</u> |
|   |      | 1,534,189          | 1,894,474          |
| Commission and agency expenses                    |      | (689,618)          | (610,234)          |
| Management expenses                               | 20   | <u>(249,370)</u>   | <u>(235,333)</u>   |
|   |      | 595,201            | 1,048,907          |
| Investment income                                 | 18   | 1,612,469          | 1,401,790          |
| Other operating income - net                      | 19   | <u>1,270,236</u>   | <u>480,965</u>     |
| Surplus before taxation                           |      | 3,477,906          | 2,931,662          |
| Taxation  | 21   | <u>(239,837)</u>   | <u>(140,881)</u>   |
| Surplus after taxation                            |      | 3,238,069          | 2,790,781          |
| Life policyholders' fund at beginning of year     | 14   | <u>25,553,177</u>  | <u>23,192,269</u>  |
|   |      | 28,791,246         | 25,983,050         |
| Surplus transferred to income statement (page 22) |      | <u>(676,102)</u>   | <u>(429,873)</u>   |
| Life policyholders' fund at end of year           |      | <u>28,115,144</u>  | <u>25,553,177</u>  |
| Surplus from investment-linked business           | 26   | <u>192,372</u>     | <u>96,584</u>      |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

|   | Note | 2007<br>RM'000 | 2006<br>RM'000 |
|---|------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |      |                |                |
| Profit before taxation  |      | 688,924        | 435,303        |
| Adjustments:  |      |                |                |
| Depreciation of property, plant and equipment                             |      | 39,601         | 36,013         |
| Depreciation of investment properties                                     |      | 4,701          | 2,849          |
| Writeback for impairment of investments                                   |      | (5,394)        | (21,054)       |
| Writeback for impairment of buildings owner occupied properties           |      | (1,541)        | (655)          |
| Writeback for impairment of investment properties                         |      | (4,718)        | (3,512)        |
| Gain on disposal of investments   |      | (1,370,845)    | (458,171)      |
| Gain on disposal of property, plant and equipment                         |      | (645)          | (3)            |
| Gain on disposal of investment properties                                 |      | -              | (9,040)        |
| Forex loss on disposal of investment-linked business                      |      | 8              | -              |
| Amortisation of prepaid land lease payments                               |      | 146            | -              |
| Amortisation of intangible assets   |      | 4,850          | 4,851          |
| Accretion of discounts - net  |      | (71,307)       | (11,620)       |
| Investment income   |      | (1,616,889)    | (1,447,572)    |
| Unrealised gain arising on investment-linked business                     |      | (74,721)       | (76,903)       |
| Unrealised forex loss arising on investment-linked business               |      | 50             | 22             |
| Expense items from Work In Progress                                       |      | 749            | -              |
| Provision for agent's retirement benefit                                  |      | 51,697         | 45,920         |
| Change in unitholders' accounts   |      | 187,024        | 140,943        |
| Change in life policyholders' fund  |      | 3,010,348      | 2,606,559      |
| Profit from operations before changes in operating assets and liabilities |      | 842,038        | 1,243,930      |
| Purchase of investments   |      | (11,455,030)   | (7,020,883)    |
| Purchase of investment properties   |      | (6,501)        | (5,716)        |
| Proceeds from disposal of investments                                     |      | 9,961,239      | 5,223,729      |
| Proceeds from disposal of investment properties                           |      | -              | 36,162         |
| Changes in working capital:   |      |                |                |
| Fixed deposits  |      | (697,469)      | (345,996)      |
| Receivables   |      | (360,391)      | (103,776)      |
| Loans   |      | (65,145)       | 4              |
| Outstanding claims  |      | 70,568         | (3,667)        |
| Payables  |      | 624,477        | 244,533        |
|   |      | (1,086,214)    | (731,680)      |

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007 (CONT'D.)**

|   | Note | 2007<br>RM'000   | 2006<br>RM'000   |
|---|------|------------------|------------------|
| Tax paid  |      | (227,466)        | (133,895)        |
| Investment income received                          |      |                  |                  |
| - Dividend  |      | 326,053          | 298,659          |
| - Interest  |      | 1,148,962        | 1,022,286        |
| - Others  |      | 69,586           | 4,469            |
| Agents' retirement benefit paid                     |      | (16,476)         | (14,870)         |
| Net cash generated from operating activities        |      | <u>214,445</u>   | <u>444,969</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>         |      |                  |                  |
| Purchase of property, plant and equipment           |      | (123,613)        | (101,533)        |
| Addition of prepaid land lease payments             |      | (1,871)          | (1,846)          |
| Purchase of intangible assets                       |      | (28,108)         | (16,765)         |
| Proceeds from sale of property, plant and equipment |      | 645              | 94               |
| Net cash used in investing activities               |      | <u>(152,947)</u> | <u>(120,050)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITY</b>           |      |                  |                  |
| Dividend paid                                       |      | (62,377)         | (280,884)        |
| Net cash used in financing activity                 |      | <u>(62,377)</u>  | <u>(280,884)</u> |
| <b>NET (DECREASE)/INCREASE</b>                      |      |                  |                  |
| <b>IN CASH AND CASH EQUIVALENTS</b>                 |      |                  |                  |
|   |      | (879)            | 44,035           |
| <b>CASH AND CASH EQUIVALENTS:</b>                   |      |                  |                  |
| <b>AT BEGINNING OF YEAR</b>                         |      |                  |                  |
|   |      | <u>113,377</u>   | <u>69,342</u>    |
| <b>AT END OF YEAR</b>                               |      |                  |                  |
|   | 27   | <u>112,498</u>   | <u>113,377</u>   |

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

**GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007**

**1. CORPORATE INFORMATION**

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 20, Menara Great Eastern, 303 Jalan Ampang, 50450 Kuala Lumpur.

The principal activity of the Company is the underwriting of life insurance business.

There has been no significant change in the nature of the activity during the financial year.

The immediate holding company is Great Eastern Capital (Malaysia) Sdn Bhd (formerly known as Great Eastern Capital (Malaysia) Berhad), a company incorporated in Malaysia. The intermediate holding company is The Great Eastern Life Assurance Company Limited, a company incorporated in the Republic of Singapore. The ultimate holding company is Overseas-Chinese Banking Corporation Limited (OCBC), a public-listed company incorporated in the Republic of Singapore.

The financial statements are authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 4 February 2008.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF ACCOUNTING**

The financial statements have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with applicable Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and Guidelines/Circulars issued by Bank Negara Malaysia. At the beginning of the financial year, the Company had adopted new and revised FRSs as described fully in Note 2.3.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including non-refundable taxes and any costs to enhance the working condition of the asset for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is charged to the Income Statement and/or Revenue Account in the period in which the costs are incurred. Where the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Depreciation for property, plant and equipment is calculated on a straight-line basis to write off the cost of each amount to its residual value over their estimated useful life. No depreciation is provided for freehold land and capital work in progress. The annual depreciation rates are:

|                               |           |
|-------------------------------|-----------|
| Buildings                     | 2 %       |
| Office furniture and fittings | 10 %      |
| Computer equipment            | 20 - 33 % |
| Motor vehicles                | 20 %      |
| Office equipment              | 20 %      |
| Building plant and equipment  | 6 - 7 %   |

Leasehold buildings are depreciated over their estimated useful lives or over the remaining lease term of the leasehold land on which the building resides, if the remaining lease term of the leasehold land is shorter than the estimated useful life of the building.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the Income Statement and/or Revenue Account in the year the asset is derecognised.

Included in the Life Fund's property, plant and equipment are freehold land, and leasehold and freehold buildings occupied for own use for the operations of the Company. Leasehold land are classified as prepaid lease payment as described in Note 2(f).

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

### **(b) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provision of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance contracts are excluded from the scope of FRS 132 - Financial Instruments: Disclosure and Presentation.

### **(i) Malaysian Government Securities and other approved investments**

Malaysian Government Securities and other investments as specified by Bank Negara Malaysia are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the dates of purchase to the maturity dates. The amortisation of premiums and accretion of discounts are recognised in the Income Statement and/or Revenue Account.

### **(ii) Quoted investments**

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments, except that if impairment in value of a particular investment is not regarded as temporary, provision is made against the value of that investment.

### **(iii) Unquoted investments**

Unquoted investments are stated at cost less provision for any impairment.

### **(iv) Loans**

Loans include policy loans, premium loans, secured loans and unsecured loans. Policy loans and premium loans are extended by the Company. These loans are secured on the cash value of the policies of these policyholders. Secured loans, extended largely to corporations, are secured on real estate and/or by bank guarantees.

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

### **(b) Financial Instruments (Cont'd.)**

#### **(iv) Loans (Cont'd.)**

Policy loans are carried at unpaid principal balances, which approximate fair value. Premium loans are carried at balances outstanding at reporting date. Secured and unsecured loans are carried at cost, less provision for impairment.

#### **(v) Investment-linked business**

Quoted investments of investment-linked business are stated at the closing market prices as at balance sheet date. Investments in unquoted corporate debt securities are valued by taking the average indicative prices provided by three banks. Any increase or decrease in value of these investments is taken into the Investment-Linked Income Statement.

#### **(vi) Receivable**

Known bad debts are written off and specific provisions are made for any premiums including agents balances or reinsurance balances which remain outstanding for more than six months from the date on which they become receivable and for all debts which are considered doubtful.

#### **(vii) Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

#### **(viii) Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### **(c) Investment Properties**

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

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

### (c) Investment Properties

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

### (d) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for intangible assets with a finite useful life are reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in the Revenue Account.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

Gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Revenue Account when the asset is derecognised.

The cost of significant development of knowledge-based software and computer applications to meet the unique requirements of the insurance business is capitalised and recognised as an intangible asset in accordance with FRS 138 - Intangible Assets. The Company establishes that these development costs will generate economic benefits beyond one year and are associated with identifiable software applications controlled by the Company. Software development costs are amortised from the date of system commissioning, on a straight line basis over its estimated useful life of ten years. The carrying amount is assessed for impairment on an annual basis.

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****(e) Impairment of Assets**

The carrying values of unquoted investments, investment properties, leasehold land, secured and unsecured loans, property, plant and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

An impairment loss is charged to the Income Statement and/or Revenue Account. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the Income Statement and/or Revenue Account account immediately, unless the asset is carried at revalued amount.

**(f) Leases****(i) Classification**

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

**(ii) Finance Leases - the Company as Lessee**

Useful lives of all leasehold buildings are shorter than the lease term of the leasehold land on which the buildings are located. As such, all risks and rewards incidental to the ownership of such assets would be deemed to have been substantially transferred to the Company at the end of their useful lives. All leasehold buildings are therefore classified as finance lease in the financial statements.

Buildings held under finance leases are recognised as assets in the Balance Sheet of the Company and measured in accordance with FRS 116 - Property, Plant and Equipment and FRS 140 - Investment Properties.

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

### **(f) Leases (Cont'd.)**

#### **(ii) Finance Leases - the Company as Lessee (Cont'd.)**

All leasehold buildings including those classified as investment properties are measured at cost less depreciation and impairment, if any. The depreciation expense is charged to the Revenue Account of the Life Fund.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(a) and investment properties as described in Note 2.2(c).

#### **(iii) Operating Leases - the Company as Lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term. Long term prepaid lease payments refer to leases with an unexpired period of fifty years or more.

#### **(iv) Operating Leases - the Company as Lessor**

Assets leased out under operating leases are presented on the balance sheets according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease (Note 18). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis on the lease term.

### **(g) Life Insurance Underwriting Results**

The surplus transferable from the Life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders.

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****(g) Life Insurance Underwriting Results (Cont'd.)****(i) Premium Income**

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

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured. Premium not received on due date are recognised as revenue in the revenue account and reported as outstanding premiums in the balance sheet.

**(ii) Creation of units**

Net creation of units is recognised on a receipt basis.

**(iii) Commission and Agency Expenses**

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

**(iv) Claims/Policy Benefits**

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

Policy benefits are recognised in the accounts when the policyholder exercises the option to deposit the cash bonus and survival benefit with the Company when the benefits fall due. Policy benefits are interest bearing at rates as determined by the Company from time to time.

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

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

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

### (h) Other Revenue Recognition

Interest on loans are recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised on a receipt basis until all arrears have been paid.

Other interest is recognised on a time proportion basis that takes into account the effective yield of the asset.

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

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

All sales of investments are recognised on their trade dates i.e., the date the Company commits to sell the assets. Gains or losses arising from the sale of investments are credited or charged to the Income Statement and/or Revenue Account.

### (i) Agents' Retirement Benefits

Provision for agent's retirement benefits is calculated in accordance with the terms and conditions in the respective Life Assurance Sales Representative's Agreement.

The terms and conditions of the Agreement stipulate that upon the agent maintaining his position for the qualifying year and achieving the required personal sales and minimum new business, the Company shall allocate to the agent a deferred benefit/retirement benefit.

The deferred benefit/retirement benefit accumulated as at 31 December of each year shall continue to accrue interest calculated at the dividend rate as announced by the Employees' Provident Fund for that year.

The accrued deferred benefit shall only become payable provided the Agreement has been in force for certain continuous contract years with the Company and the agent has attained the minimum age stipulated in the Agreement.

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

### (j) Foreign Currencies

#### (i) Functional and Presentation Currency

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

#### (ii) Foreign Currency Transactions

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the dates of transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the Income Statement and/or Revenue Account for the year.

The principal exchange rates of foreign currency ruling at balance sheet date used are as follows:

|                      | <b>2007</b> | <b>2006</b> |
|----------------------|-------------|-------------|
|                      | <b>RM</b>   | <b>RM</b>   |
| Singapore Dollar     | 2.30        | 2.30        |
| United States Dollar | 3.31        | 3.53        |
| British Pound        | 6.56        | 6.91        |
| Australian Dollar    | 2.89        | 2.78        |

### (k) Income Tax

Income tax on the profit and loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit/surplus for the year and is measured using the tax rates that have been enacted at the balance sheet date.

**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****(k) Income Tax (Cont'd.)**

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

**(l) Employee Benefits****(i) Short term benefits**

Wages, salaries, bonus and social security contributions are recognised as expenses in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined contribution plans**

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the Income Statement and/or Revenue Account as incurred.

**(m) Cash and Cash Equivalents**

Cash and cash equivalents consists of cash and bank balances excluding fixed deposits and repurchase agreements, which have an insignificant risk of changes in value.

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

### (n) 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 balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditure required to settle the obligation.

## 2.3 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs

On 1 January 2007, the Company adopted the following FRSs mandatory for financial periods:

### Beginning on or after 1 October 2006:

|         |                           |
|---------|---------------------------|
| FRS 117 | Leases                    |
| FRS 124 | Related Party Disclosures |

### Beginning on or after 1 January 2007:

FRS 6 Exploration for and Evaluation of Mineral Resources

Amendment to FRS 119<sub>2004</sub> Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures

The Company has not early adopted the deferred FRS 139 - Financial Instruments: Recognition and Measurement and the following FRSs and amendment that are mandatory for financial periods beginning on or after 1 July 2007:

- (i) Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
- (ii) FRS 107 : Cash Flow Statements
- (iii) FRS 111 : Construction Contracts
- (iv) FRS 112 : Income Taxes
- (v) FRS 118 : Revenue
- (vi) FRS 120 : Accounting for Government Grants and Disclosure of Government Assistance
- (vii) FRS 134 : Interim Financial Reporting
- (viii) FRS 137 : Provisions, Contingent Liabilities and Contingent Assets
- (ix) IC Interpretation 1 : Changes in Existing Decommissioning, Restoration and Similar Liabilities

## 2.3 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (CONT'D.)

### Beginning on or after 1 January 2007: (Cont'd.)

- (x) IC Interpretation 2 : Members' Shares in Co-operative Entities and Similar Instruments
- (xi) IC Interpretation 5 : Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- (xii) IC Interpretation 6 : Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- (xiii) IC Interpretation 7 : Applying the Restatement Approach under FRS 129<sub>2004</sub> - Financial Reporting in Hyperinflationary Economies
- (xiv) IC Interpretation 8 : Scope of FRS 2

FRS 6 and Amendment to FRS 119<sub>2004</sub> are not applicable to the Company. The revised FRS 124 does not result in significant changes in the accounting policies of the Company. The principal changes in accounting policies and their effects resulting from the adoption of the revised FRS are discussed below:

#### (a) FRS 117: Leases

##### Leasehold land

Prior to 1 January 2007, leasehold land held for own use was classified as property, plant and equipment while leasehold land held for investment purposes was classified as investment properties. Under both classifications, leasehold land was valued at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land held for own use and held as investment properties (valued using the cost model) is now classified as operating lease. The up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The Life fund has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2007, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed in Note 2.3(c), certain comparatives have been restated. The effects on the Balance Sheet for the year ended 31 December 2007 are set out in Note 2.3(b).

## 2.3 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (CONT'D.)

### (b) Summary of effects of adopting new FRS on the current year's financial statements

The following provides estimates of the extent to which each of the line items in the balance sheet for the year ended 31 December 2007 is higher or lower than it would have been had the previous policies been applied in the current year.

| Description of Change         | <u>(Decrease)/Increase</u><br>FRS 117<br>Note 2.3(a)<br>RM'000 |
|-------------------------------|--|
| Property, plant and equipment | (15,172)   |
| Investment properties         | (45)   |
| Prepaid land lease payments   | <u>15,217</u>  |

### (c) Restatement of comparatives

The following comparative amounts for the Life fund have been restated as a result of adopting the revised FRS:

| Description of Change         | Previously<br>Stated<br>RM'000 | <u>(Decrease)/<br/>Increase</u><br>FRS 117<br>Note 2.3(a)<br>RM'000 | Restated<br>RM'000 |
|-------------------------------|--------------------------------|---|--------------------|
| <b>At 1 January 2006</b>      |                                |   |                    |
| Property, plant and equipment | 438,483                        | (13,397)  | 425,086            |
| Investment properties         | 180,572                        | (45)  | 180,527            |
| Prepaid land lease payments   | -                              | 13,442  | 13,442             |
|                               | <u>          </u>              | <u>          </u>   | <u>          </u>  |
| <b>At 31 December 2006</b>    |                                |   |                    |
| Property, plant and equipment | 502,306                        | (15,243)  | 487,063            |
| Investment properties         | 167,033                        | (45)  | 166,988            |
| Prepaid land lease payments   | -                              | 15,288  | 15,288             |
|                               | <u>          </u>              | <u>          </u>   | <u>          </u>  |

## 2.4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Critical Judgements Made in Applying Accounting Policies

The following are judgements made by management in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

#### **Classification between investment properties and property, plant and equipment**

The Company has developed certain criteria based on FRS 140 Investment Property in making judgement whether a property qualifies to be classified as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Company would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

### (b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **(i) Depreciation of property, plant and equipment, and investment properties**

The costs of a building's plant and equipment are depreciated on a straight line basis over the asset's estimated useful lives. The Company estimates the useful lives of these plant and equipment to be within 15 to 20 years. These are common life expectancies for a building's plant and equipment.

The cost of investment properties and self-occupied properties are depreciated on a straight-line basis. The Company estimates the useful lives to be 50 years.

## **2.4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)**

### **(b) Key Sources of Estimation Uncertainty (Cont'd.)**

#### **(ii) Amortisation of intangible assets**

The Company recognises the costs of significant development of knowledge based software and computer applications as intangible assets with finite useful lives. Such software and applications are unique to the requirements of the insurance business and the Company establishes that these development cost will generate economic benefits beyond one year.

The Company estimates that the useful lives of these software costs to be 10 years.

#### **(iii) Liabilities of insurance business**

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimation of the liabilities that the Company will ultimately be required to pay as claims.

For life insurance contracts, estimates are made for future deaths, disabilities, maturities, investment returns, voluntary terminations and expenses in accordance with regulatory requirements. The Company bases the estimate of expected number of deaths on statutory mortality tables, adjusted where appropriate to reflect the Company's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. For those contracts that insure risk to disability, estimates are made based on recent past experience and emerging trends, but epidemic, as well as wide ranging changes to life style, could result in significant changes to the expected future exposure. All of this result in even more uncertainty in estimating the ultimate liability.

At each reporting date, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liability.

### 3. PROPERTY, PLANT AND EQUIPMENT

#### General business and shareholders' fund

|                                      | <b>Office<br/>Machinery<br/>RM'000</b> | <b>Office<br/>Furniture<br/>and Fittings<br/>RM'000</b> | <b>Computer<br/>Equipment<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--------------------------------------|--|---|--|-------------------------|
| <b>Cost</b>                          |  |   |  |                         |
| At 1 January 2007                    | 5                                      | 8   | 218                                      | 231                     |
| Write-off                            | (5)                                    | (8)   | (218)                                    | (231)                   |
| At 31 December 2007                  | -                                      | -   | -  | -                       |
| <b>Accumulated Depreciation</b>      |  |   |  |                         |
| At 1 January 2007                    | 5                                      | 8   | 218                                      | 231                     |
| Write-off                            | (5)                                    | (8)   | (218)                                    | (231)                   |
| At 31 December 2007                  | -                                      | -   | -  | -                       |
| <b>Net Book Value</b>                |  |   |  |                         |
| At 31 December 2007                  | -                                      | -   | -  | -                       |
| <b>Cost</b>                          |  |   |  |                         |
| At 1 January and<br>31 December 2006 | 5                                      | 8   | 218                                      | 231                     |
| <b>Accumulated Depreciation</b>      |  |   |  |                         |
| At 1 January and<br>31 December 2006 | 5                                      | 8   | 218                                      | 231                     |
| <b>Net Book Value</b>                |  |   |  |                         |
| At 31 December 2006                  | -                                      | -   | -  | -                       |

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

|  | <b>Freehold<br/>Land<br/>RM'000</b> | <b>Buildings-Owner<br/>Occupied Properties<br/>RM'000</b> | <b>Capital<br/>Work-in-Progress<br/>RM'000</b> | <b>Motor<br/>Vehicles<br/>RM'000</b> | <b>Office<br/>Machinery<br/>RM'000</b> | <b>Office Furniture<br/>and Fittings<br/>RM'000</b> | <b>Computer<br/>Equipment<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|-------------------------------------|---|--|--------------------------------------|--|---|--|-------------------------|
| <b>Cost</b>                                    |                                     |   |  |                                      |  |   |  |                         |
| At 1 January 2007                              | 13,862                              | 335,006   | 87,763   | 1,817                                | 90,865                                 | 24,466  | 176,673                                  | 730,452                 |
| Additions                                      | -                                   | 10,210  | 99,142   | 60                                   | 893                                    | 2,227   | 11,081                                   | 123,613                 |
| Disposal                                       | -                                   | -   | -  | (39)                                 | -                                      | -   | -  | (39)                    |
| Transfers                                      | -                                   | 38,784  | (184,705)                                      | -                                    | 20,574                                 | 18,414  | 57                                       | (106,876)               |
| Write-off                                      | -                                   | -   | (748)  | (334)                                | (4)                                    | -   | (104,240)                                | (105,326)               |
| At 31 December 2007                            | 13,862                              | 384,000   | 1,452  | 1,504                                | 112,328                                | 45,107  | 83,571                                   | 641,824                 |
| <b>Accumulated Depreciation and Impairment</b> |                                     |   |  |                                      |  |   |  |                         |
| At 1 January 2007                              | -                                   | 43,060  | -  | 1,333                                | 44,714                                 | 12,012  | 142,270                                  | 243,389                 |
| Disposal                                       | -                                   | -   | -  | (39)                                 | -                                      | -   | -  | (39)                    |
| Depreciation charge for the year               | -                                   | 7,557   | -  | 298                                  | 8,714                                  | 4,397   | 18,635                                   | 39,601                  |
| Write-off                                      | -                                   | -   | -  | (334)                                | (3)                                    | -   | (104,240)                                | (104,577)               |
| Impairment loss reversed in revenue account    | -                                   | (1,541)   | -  | -                                    | -                                      | -   | -  | (1,541)                 |
| At 31 December 2007                            | -                                   | 49,076  | -  | 1,258                                | 53,425                                 | 16,409  | 56,665                                   | 176,833                 |
| <b>Net Book Value</b>                          |                                     |   |  |                                      |  |   |  |                         |
| At 31 December 2007                            | 13,862                              | 334,924   | 1,452  | 246                                  | 58,903                                 | 28,698  | 26,906                                   | 464,991                 |
| <b>Cost</b>                                    |                                     |   |  |                                      |  |   |  |                         |
| At 1 January 2006                              | 13,862                              | 331,633   | 37,562   | 1,552                                | 87,431                                 | 21,230  | 139,923                                  | 633,193                 |
| Additions                                      | -                                   | 1,356   | 63,256   | 265                                  | 825                                    | 2,316   | 36,608                                   | 104,626                 |
| Disposal                                       | -                                   | -   | -  | -                                    | (8)                                    | (160)   | -  | (168)                   |
| Transfers                                      | -                                   | 2,017   | (13,055)                                       | -                                    | 2,617                                  | 1,080   | 142                                      | (7,199)                 |
| At 31 December 2006                            | 13,862                              | 335,006   | 87,763   | 1,817                                | 90,865                                 | 24,466  | 176,673                                  | 730,452                 |
| <b>Accumulated Depreciation and Impairment</b> |                                     |   |  |                                      |  |   |  |                         |
| At 1 January 2006                              | -                                   | 37,015  | -  | 1,046                                | 36,337                                 | 9,819   | 123,890                                  | 208,107                 |
| Disposal                                       | -                                   | -   | -  | -                                    | (5)                                    | (71)  | -  | (76)                    |
| Depreciation charge for the year               | -                                   | 6,700   | -  | 287                                  | 8,382                                  | 2,264   | 18,380                                   | 36,013                  |
| Impairment loss reversed in revenue account    | -                                   | (655)   | -  | -                                    | -                                      | -   | -  | (655)                   |
| At 31 December 2006                            | -                                   | 43,060  | -  | 1,333                                | 44,714                                 | 12,012  | 142,270                                  | 243,389                 |
| <b>Net Book Value</b>                          |                                     |   |  |                                      |  |   |  |                         |
| At 31 December 2006                            | 13,862                              | 291,946   | 87,763   | 484                                  | 46,151                                 | 12,454  | 34,403                                   | 487,063                 |

Included in property, plant and equipment of the Life fund are the cost of fully depreciated assets of RM50,419,138 (2006: RM117,694,830).

Included in property, plant and equipment of the Life fund are properties with a total net book value amounting to RM10,520,000 (2006: RM10,276,822), for which title deeds are still in the process of being transferred to the Life Fund.

#### 4. INVESTMENT PROPERTIES

##### Life fund

|  | <b>Freehold<br/>Land<br/>RM'000</b> | <b>Investment<br/>Buildings<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|-------------------------------------|--|-------------------------|
| <b>Cost</b>                                    |                                     |  |                         |
| At 1 January 2007                              | 69,163                              | 113,430                                    | 182,593                 |
| Additions                                      | -                                   | 6,501                                      | 6,501                   |
| Transfers                                      | -                                   | 106,876                                    | 106,876                 |
| At 31 December 2007                            | <u>69,163</u>                       | <u>226,807</u>                             | <u>295,970</u>          |
| <b>Accumulated Depreciation and Impairment</b> |                                     |  |                         |
| At 1 January 2007                              | -                                   | 15,605                                     | 15,605                  |
| Depreciation charge for the year               | -                                   | 4,701                                      | 4,701                   |
| Impairment loss reversed in revenue account    | -                                   | (4,718)                                    | (4,718)                 |
| At 31 December 2007                            | <u>-</u>                            | <u>15,588</u>                              | <u>15,588</u>           |
| <b>Net Book Value</b>                          |                                     |  |                         |
| At 31 December 2007                            | <u>69,163</u>                       | <u>211,219</u>                             | <u>280,382</u>          |
| <b>Cost</b>                                    |                                     |  |                         |
| At 1 January 2006                              | 81,261                              | 129,523                                    | 210,784                 |
| Additions                                      | -                                   | 5,716                                      | 5,716                   |
| Disposal                                       | (12,098)                            | (29,008)                                   | (41,106)                |
| Transfers                                      | -                                   | 7,199                                      | 7,199                   |
| At 31 December 2006                            | <u>69,163</u>                       | <u>113,430</u>                             | <u>182,593</u>          |
| <b>Accumulated Depreciation and Impairment</b> |                                     |  |                         |
| At 1 January 2006                              | -                                   | 30,257                                     | 30,257                  |
| Disposal                                       | -                                   | (13,989)                                   | (13,989)                |
| Depreciation charge for the year               | -                                   | 2,849                                      | 2,849                   |
| Impairment loss reversed in revenue account    | -                                   | (3,512)                                    | (3,512)                 |
| At 31 December 2006                            | <u>-</u>                            | <u>15,605</u>                              | <u>15,605</u>           |
| <b>Net Book Value</b>                          |                                     |  |                         |
| At 31 December 2006                            | <u>69,163</u>                       | <u>97,825</u>                              | <u>166,988</u>          |

The fair value of investment properties as at the end of the financial year amount to RM405,235,000 (2006: RM251,610,000).

The fair value of investment properties is determined by independent valuers using the valuation basis of Investment Method.

## 5. INVESTMENTS

|   | 2007              |                        | 2006              |                        |
|---|-------------------|------------------------|-------------------|------------------------|
|   | At cost<br>RM'000 | Market value<br>RM'000 | At cost<br>RM'000 | Market value<br>RM'000 |
| <b>(a) General business and shareholders' fund</b>              |                   |                        |                   |                        |
| Malaysian Government papers                                     | 44,469            | 44,777                 | 50,148            | 49,809                 |
| Government investment issue                                     | 9,895             | 9,913                  | -                 | -                      |
| Treasury bills  | 9,660             | 9,622                  | -                 | -                      |
| Bank Negara papers  | 39,310            | 38,505                 | -                 | -                      |
| Cagamas bonds   | 29,589            | 30,102                 | 29,589            | 30,194                 |
| Amortisation of premiums, net<br>of accretion of discounts      | 474               |                        | (405)             |                        |
|   | <u>133,397</u>    | <u>132,919</u>         | <u>79,332</u>     | <u>80,003</u>          |
| Quoted:   |                   |                        |                   |                        |
| Equity securities of corporations                               |                   |                        |                   |                        |
| Quoted in Malaysia  | 18,433            | 22,875                 | 5,417             | 6,194                  |
| Quoted outside Malaysia   | -                 | -                      | -                 | -                      |
|   | <u>18,433</u>     | <u>22,875</u>          | <u>5,417</u>      | <u>6,194</u>           |
| Provision for impairment  | (5)               |                        | -                 |                        |
|   | <u>18,428</u>     |                        | <u>5,417</u>      |                        |
| Unquoted:   |                   |                        |                   |                        |
| Shares of corporations  | <u>292</u>        |                        | <u>292</u>        |                        |
| Corporate debt securities                                       |                   |                        |                   |                        |
| - amortised   | 34,878            | 34,890                 | -                 | -                      |
| - non amortised   | 5,000             | 4,989                  | -                 | -                      |
| Accretion of discounts, net<br>of amortisation of premiums      | -                 |                        | -                 |                        |
|   | <u>39,878</u>     |                        | <u>-</u>          |                        |
| Investment-linked funds<br>(seed money)                         | <u>-</u>          | <u>-</u>               | <u>9,000</u>      | <u>9,379</u>           |
| Fixed deposits and repurchase<br>agreements with licensed banks | 83,320            |                        | 20,380            |                        |
| Total investments   | <u>275,315</u>    |                        | <u>114,421</u>    |                        |

**5. INVESTMENTS (CONT'D.)****(a) General business and shareholders' fund (Cont'd.)****Maturity structure of investments, at cost  
(excluding equity investments)**

|   | <b>Within 1</b> | <b>1 - 2</b>  | <b>2 - 3</b>  | <b>3 - 4</b>  | <b>4 - 5</b>  | <b>More</b>   |               |
|---|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | <b>Year</b>     | <b>Year</b>   | <b>Year</b>   | <b>Year</b>   | <b>Year</b>   | <b>Than 5</b> | <b>Total</b>  |
|   | <b>RM'000</b>   | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> |
| 2007  |                 |               |               |               |               |               |               |
| Malaysian Government papers                                 | 450             | -             | 19,744        | -             | 24,275        | -             | 44,469        |
| Government investment issue                                 | -               | -             | -             | -             | 9,895         | -             | 9,895         |
| Treasury bills  | 9,660           | -             | -             | -             | -             | -             | 9,660         |
| Bank Negara papers  | 39,310          | -             | -             | -             | -             | -             | 39,310        |
| Cagamas bonds   | -               | 29,589        | -             | -             | -             | -             | 29,589        |
| Unquoted corporate debt securities                          |                 |               |               |               |               |               |               |
| - amortised   | 10,003          | -             | 24,875        | -             | -             | -             | 34,878        |
| - non amortised   | -               | -             | -             | -             | 5,000         | -             | 5,000         |
| Fixed deposits and agreement with licensed banks            | 83,320          | -             | -             | -             | -             | -             | 83,320        |
| 2006  |                 |               |               |               |               |               |               |
| Malaysian Government papers                                 | 5,679           | 450           | -             | 19,744        | -             | 24,275        | 50,148        |
| Cagamas bonds   | -               | -             | 29,589        | -             | -             | -             | 29,589        |
| Fixed deposits and repurchase agreement with licensed banks | 20,380          | -             | -             | -             | -             | -             | 20,380        |

The weighted average effective interest rates of investments at the balance sheet date were as follows:

|                             | <b>2007</b>      | <b>2006</b>      |
|-----------------------------|------------------|------------------|
|                             | <b>%</b>         | <b>%</b>         |
|                             | <b>per annum</b> | <b>per annum</b> |
| Malaysian Government papers | 3.91             | 3.90             |
| Government investment issue | 3.82             | -                |
| Treasury bills              | 3.51             | -                |
| Bank Negara papers          | 3.51             | -                |

**5. INVESTMENTS (CONT'D.)****(a) General business and shareholders' fund (Cont'd.)**

|  | <b>2007</b>      | <b>2006</b>      |
|--|------------------|------------------|
|  | <b>%</b>         | <b>%</b>         |
|  | <b>per annum</b> | <b>per annum</b> |
| Cagamas bonds  | 4.40             | 4.40             |
| Unquoted corporate debt securities                           |                  |                  |
| - amortised  | 3.84             | -                |
| - non amortised  | 4.15             | -                |
| Fixed deposits and repurchase agreements with licensed banks | <u>3.52</u>      | <u>3.47</u>      |

The average maturities of deposits with licensed banks as at the end of the financial year were 22 days (2006: 9 days).

|   | <b>2007</b>      |                     | <b>2006</b>      |                     |
|---|------------------|---------------------|------------------|---------------------|
|   | <b>At cost</b>   | <b>Market value</b> | <b>At cost</b>   | <b>Market value</b> |
|   | <b>RM'000</b>    | <b>RM'000</b>       | <b>RM'000</b>    | <b>RM'000</b>       |
| <b>(b) Life fund</b>                                    |                  |                     |                  |                     |
| Malaysian Government papers                             | 6,263,449        | 6,342,341           | 5,782,764        | 5,931,463           |
| Government investment issue                             | 1,193,422        | 1,212,656           | 1,047,939        | 1,077,857           |
| Treasury bills  | 28,982           | 28,866              | -                | -                   |
| Bank Negara papers                                      | 240,878          | 235,844             | -                | -                   |
| Cagamas bonds   | 797,017          | 791,458             | 1,174,423        | 1,168,129           |
| Amortisation of premiums, net of accretion of discounts | <u>(31,986)</u>  |                     | <u>(72,435)</u>  |                     |
|   | <u>8,491,762</u> | <u>8,611,165</u>    | <u>7,932,691</u> | <u>8,177,449</u>    |
| Quoted:   |                  |                     |                  |                     |
| Equity securities of corporations                       |                  |                     |                  |                     |
| Quoted in Malaysia                                      | 4,231,225        | 7,394,625           | 4,897,841        | 6,825,389           |
| Quoted outside Malaysia                                 | 130,304          | 1,512,386           | 147,204          | 1,266,389           |
|   | <u>4,361,529</u> | <u>8,907,011</u>    | <u>5,045,045</u> | <u>8,091,778</u>    |
| Provision for impairment                                | <u>(4,098)</u>   |                     | <u>(9,880)</u>   |                     |
|   | <u>4,357,431</u> |                     | <u>5,035,165</u> |                     |

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

|   | 2007              |                        | 2006              |                        |
|---|-------------------|------------------------|-------------------|------------------------|
|   | At cost<br>RM'000 | Market value<br>RM'000 | At cost<br>RM'000 | Market value<br>RM'000 |
| <b>(b) Life fund (Cont'd.)</b>                                |                   |                        |                   |                        |
| Loan stock of corporations                                    | 14,277            | 86,027                 | 21,401            | 30,887                 |
| Provision for impairment                                      | -                 |                        | -                 |                        |
|   | <u>14,277</u>     |                        | <u>21,401</u>     |                        |
| Corporate debt securities                                     | <u>3,815</u>      | 9,930                  | <u>4,709</u>      | 10,636                 |
| Other investments   | 31,429            | 38,035                 | 27,107            | 28,364                 |
| Provision for impairment                                      | (382)             |                        | -                 |                        |
|   | <u>31,047</u>     |                        | <u>27,107</u>     |                        |
| Unquoted:   |                   |                        |                   |                        |
| Shares of corporations  | 200,545           |                        | 202,766           |                        |
| Provision for impairment                                      | (93)              |                        | (91)              |                        |
|   | <u>200,452</u>    |                        | <u>202,675</u>    |                        |
| Unquoted:   |                   |                        |                   |                        |
| Corporate debt securities                                     |                   |                        |                   |                        |
| - amortised   | 7,719,700         | 8,344,458              | 6,821,159         | 7,467,293              |
| - non amortised   | 3,472,700         | 3,497,571              | 1,678,700         | 1,730,919              |
| Accretion of discounts, net<br>of amortisation of<br>premiums | 273,029           |                        | 200,326           |                        |
|   | <u>11,465,429</u> |                        | <u>8,700,185</u>  |                        |
| Fixed deposits and repurchase<br>agreements with:             |                   |                        |                   |                        |
| Licensed banks  | 1,496,574         |                        | 1,271,824         |                        |
| Other financial institutions                                  | 341,619           |                        | 51,110            |                        |
|   | <u>1,838,193</u>  |                        | <u>1,322,934</u>  |                        |
| Total Investments   | <u>26,402,406</u> |                        | <u>23,246,867</u> |                        |

**5. INVESTMENTS (CONT'D.)****(b) Life fund (Cont'd.)****Maturity structure of investments, at cost  
(excluding equity investments and others investments)**

|  | <b>Within 1</b> | <b>1 - 2</b>  | <b>2 - 3</b>  | <b>3 - 4</b>  | <b>4 - 5</b>  | <b>More</b>   |               |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | <b>Year</b>     | <b>Years</b>  | <b>Years</b>  | <b>Years</b>  | <b>Years</b>  | <b>Than 5</b> | <b>Total</b>  |
|  | <b>RM'000</b>   | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> |
| <b>2007</b>                                    |                 |               |               |               |               |               |               |
| Malaysian Government papers                    | 727,966         | 956,549       | 181,126       | 1,398,541     | 207,451       | 2,791,816     | 6,263,449     |
| Government investment issue                    | -               | 64,485        | 1,741         | 599,962       | 113,762       | 413,472       | 1,193,422     |
| Treasury bills                                 | 28,982          | -             | -             | -             | -             | -             | 28,982        |
| Bank Negara papers                             | 240,878         | -             | -             | -             | -             | -             | 240,878       |
| Cagamas bonds                                  | 651,257         | 145,760       | -             | -             | -             | -             | 797,017       |
| Quoted loan stock of corporations              | 544             | 6,800         | -             | -             | -             | 6,933         | 14,277        |
| Quoted corporate debt securities               | -               | -             | -             | -             | -             | 3,815         | 3,815         |
| Unquoted corporate debt securities             |                 |               |               |               |               |               |               |
| - amortised                                    | 1,340,401       | 633,085       | 517,618       | 648,460       | 720,538       | 3,859,598     | 7,719,700     |
| - non amortised                                | 249,000         | 45,000        | 492,500       | 235,000       | 559,000       | 1,892,200     | 3,472,700     |
| Fixed deposits and repurchase agreements with: |                 |               |               |               |               |               |               |
| Licensed banks                                 | 1,356,574       | 100,000       | 20,000        | -             | 20,000        | -             | 1,496,574     |
| Other financial institutions                   | 299,119         | -             | -             | 42,500        | -             | -             | 341,619       |

**5. INVESTMENTS (CONT'D.)****(b) Life fund (Cont'd.)****Maturity structure of investments, at cost  
(excluding equity investments and others investments)**

|                         | <b>Within 1</b> | <b>1 - 2</b>  | <b>2 - 3</b>  | <b>3 - 4</b>  | <b>4 - 5</b>  | <b>More</b>   |               |
|-------------------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                         | <b>Year</b>     | <b>Years</b>  | <b>Years</b>  | <b>Years</b>  | <b>Years</b>  | <b>Than 5</b> | <b>Total</b>  |
|                         | <b>RM'000</b>   | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b> |
| <b>2006</b>             |                 |               |               |               |               |               |               |
| Malaysian Government    |                 |               |               |               |               |               |               |
| papers                  | 707,811         | 727,155       | 1,006,541     | 176,077       | 1,432,294     | 1,732,886     | 5,782,764     |
| Government investment   |                 |               |               |               |               |               |               |
| issue                   | -               | -             | 64,485        | -             | 599,962       | 383,492       | 1,047,939     |
| Cagamas bonds           | 397,538         | 651,265       | 125,620       | -             | -             | -             | 1,174,423     |
| Quoted loan stock of    |                 |               |               |               |               |               |               |
| corporations            | -               | 544           | 6,800         | -             | -             | 14,057        | 21,401        |
| Quoted corporate debt   |                 |               |               |               |               |               |               |
| securities              | -               | -             | -             | -             | -             | 4,709         | 4,709         |
| Unquoted corporate debt |                 |               |               |               |               |               |               |
| securities              |                 |               |               |               |               |               |               |
| - amortised             | 1,126,452       | 938,064       | 643,800       | 492,042       | 770,472       | 2,850,329     | 6,821,159     |
| - non amortised         | 140,000         | 249,000       | -             | -             | 665,500       | 624,200       | 1,678,700     |
| Fixed deposits and      |                 |               |               |               |               |               |               |
| repurchase agreements   |                 |               |               |               |               |               |               |
| with:                   |                 |               |               |               |               |               |               |
| Licensed banks          | 1,181,824       | 50,000        | -             | 20,000        | -             | 20,000        | 1,271,824     |
| Other financial         |                 |               |               |               |               |               |               |
| institutions            | 8,610           | -             | -             | -             | 42,500        | -             | 51,110        |

**5. INVESTMENTS (CONT'D.)****(b) Life fund (Cont'd.)**

The weighted average effective interest rates of investments at the balance sheet date were as follows:

|  | <b>2007</b><br><b>%</b><br><b>per annum</b> | <b>2006</b><br><b>%</b><br><b>per annum</b> |
|--|---|---|
| Malaysian Government papers                    | 4.36  | 4.33  |
| Government investment issue                    | 4.18  | 4.22  |
| Treasury bills                                 | 3.50  | -   |
| Bank Negara papers                             | 3.48  | -   |
| Cagamas bonds                                  | 3.67  | 3.55  |
| Quoted loan stock of corporations              | 1.66  | 2.11  |
| Quoted corporate debt securities               | 12.95                                       | 10.67                                       |
| Unquoted corporate debt securities             |   |   |
| - amortised                                    | 5.52  | 5.74  |
| - non amortised                                | 4.87  | 5.04  |
| Fixed deposits and repurchase agreements with: |   |   |
| Licensed banks                                 | 3.50  | 3.14  |
| Other financial institutions                   | 3.87  | 5.99  |

The average maturities of deposits as at the end of the financial year were as follows:

|                              | <b>2007</b><br><b>Days</b> | <b>2006</b><br><b>Days</b> |
|------------------------------|----------------------------|----------------------------|
| Licensed banks               | 125                        | 155                        |
| Other financial institutions | 162                        | 1,249                      |

**6. PREPAID LAND LEASE PAYMENTS****Life fund**

|                                 | <b>2007</b><br><b>RM'000</b> | <b>2006</b><br><b>RM'000</b> |
|---------------------------------|------------------------------|------------------------------|
| <b>Long term leasehold land</b> |                              |                              |
| At beginning of year            | 15,288                       | 13,442                       |
| Additions                       | 3,003                        | 1,846                        |
| Amortisation for the year       | (146)                        | -                            |
| At end of year                  | 18,145                       | 15,288                       |

**7. INTANGIBLE ASSETS****Life fund**

|                                 | <b>Software development costs</b> |                |
|---------------------------------|-----------------------------------|----------------|
|                                 | <b>2007</b>                       | <b>2006</b>    |
|                                 | <b>RM'000</b>                     | <b>RM'000</b>  |
| <b>Cost</b>                     |                                   |                |
| At beginning of year            | 138,347                           | 121,582        |
| Additions                       | 28,108                            | 16,765         |
| At end of year                  | <u>166,455</u>                    | <u>138,347</u> |
| <b>Accumulated amortisation</b> |                                   |                |
| At beginning of year            | 14,553                            | 9,702          |
| Amortisation for the year       | 4,850                             | 4,851          |
| At end of year                  | <u>19,403</u>                     | <u>14,553</u>  |
| Net book value at end of year   | <u>147,052</u>                    | <u>123,794</u> |

Included in intangible assets are cost of software under development at RM117,949,632 (2006: RM72,315,000)

**8. LOANS**

|                 | <b>Life fund</b> |                  |
|-----------------|------------------|------------------|
|                 | <b>2007</b>      | <b>2006</b>      |
|                 | <b>RM'000</b>    | <b>RM'000</b>    |
| Policy loans *  | 2,852,156        | 2,685,459        |
| Mortgage loans  | 872,006          | 862,916          |
| Secured loans   | 77,500           | 187,650          |
| Unsecured loans | 2,289            | 2,781            |
|                 | <u>3,803,951</u> | <u>3,738,806</u> |

**8. LOANS (CONT'D.)****Maturity structure of loans, at cost**

| Life Fund       | Within 1 | 1 - 2  | 2 - 3   | 3 - 4   | 4 - 5  | More    | Total   |
|-----------------|----------|--------|---------|---------|--------|---------|---------|
|                 | Year     | Years  | Years   | Years   | Years  | Than 5  |         |
|                 | RM'000   | RM'000 | RM'000  | RM'000  | RM'000 | RM'000  | RM'000  |
| <b>2007</b>     |          |        |         |         |        |         |         |
| Mortgage loans  | 27,125   | 40     | 243,228 | 17,070  | 5,491  | 579,052 | 872,006 |
| Secured loans   | -        | -      | -       | -       | -      | 77,500  | 77,500  |
| Unsecured loans | 157      | 344    | 383     | 590     | 486    | 329     | 2,289   |
| <b>2006</b>     |          |        |         |         |        |         |         |
| Mortgage loans  | 29       | 47,403 | 204     | 259,187 | 18,329 | 537,764 | 862,916 |
| Secured loans   | 99,150   | -      | -       | -       | -      | 88,500  | 187,650 |
| Unsecured loans | 96       | 390    | 589     | 643     | 614    | 449     | 2,781   |

\* Policy loans have undeterminable maturity dates due to there being no fixed or contracted repayment terms with policyholders.

**9. RECEIVABLES**

|                                 | General business and |        | Life fund |         |
|---------------------------------|----------------------|--------|-----------|---------|
|                                 | shareholders' fund   |        |           |         |
|                                 | 2007                 | 2006   | 2007      | 2006    |
|                                 | RM'000               | RM'000 | RM'000    | RM'000  |
| <b>Trade receivables</b>        |                      |        |           |         |
| Due premiums                    |                      |        |           |         |
| including agents/brokers        |                      |        |           |         |
| and co-insurers balances        | -                    | -      | 195,661   | 194,410 |
| Due from reinsurers and cedants | -                    | -      | 7         | 4,329   |
| Allowance for doubtful debts    | -                    | -      | (604)     | (1,380) |
|                                 | -                    | -      | 195,064   | 197,359 |

**9. RECEIVABLES (CONTD.)**

|  | <b>General business and</b> |                | <b>Life fund</b> |                |
|--|-----------------------------|----------------|------------------|----------------|
|  | <b>shareholders' fund</b>   |                |                  |                |
|  | <b>2007</b>                 | <b>2006</b>    | <b>2007</b>      | <b>2006</b>    |
|  | <b>RM'000</b>               | <b>RM'000</b>  | <b>RM'000</b>    | <b>RM'000</b>  |
| <b>Sundry receivables</b>                    |                             |                |                  |                |
| Income due and accrued                       | 1,317                       | 978            | 359,172          | 346,317        |
| Allowance for doubtful debts                 | -                           | -              | (167)            | (246)          |
|  | <u>1,317</u>                | <u>978</u>     | <u>359,005</u>   | <u>346,071</u> |
| Other receivables                            | -                           | -              | 9,369            | 8,808          |
| Amount due from intermediate holding company | 111                         | -              | -                | -              |
| Amount due from a related company            | 506                         | 358            | -                | -              |
| Amount due from General fund (Note 11)       | -                           | -              | -                | 544            |
| Amount due from Life fund (Note 11)          | <u>672,315</u>              | <u>354,011</u> | <u>-</u>         | <u>-</u>       |
|  | <u>674,249</u>              | <u>355,347</u> | <u>368,374</u>   | <u>355,423</u> |
| Total receivables                            | <u>674,249</u>              | <u>355,347</u> | <u>563,438</u>   | <u>552,782</u> |
| Receivable after 12 months                   | <u>9</u>                    | <u>5</u>       | <u>5,086</u>     | <u>4,560</u>   |

Related companies in these financial statements refer to companies within the Overseas-Chinese Banking Corporation Group.

The amounts due from the intermediate holding and related company are unsecured, interest-free and have no fixed terms of repayment.

**10. PROVISION FOR OUTSTANDING CLAIMS**

|                                  | <b>General business and</b> |               | <b>Life fund</b> |                |
|----------------------------------|-----------------------------|---------------|------------------|----------------|
|                                  | <b>shareholders' fund</b>   |               |                  |                |
|                                  | <b>2007</b>                 | <b>2006</b>   | <b>2007</b>      | <b>2006</b>    |
|                                  | <b>RM'000</b>               | <b>RM'000</b> | <b>RM'000</b>    | <b>RM'000</b>  |
| Provision for outstanding claims | 68                          | 105           | 264,127          | 207,833        |
| Recoverable from reinsurers      | -                           | -             | (5,567)          | (9,811)        |
| Net outstanding claims           | <u>68</u>                   | <u>105</u>    | <u>258,560</u>   | <u>198,022</u> |

**11. PAYABLES**

|  | <b>General business and</b> |               | <b>Life fund</b> |                |
|--|-----------------------------|---------------|------------------|----------------|
|  | <b>shareholders' fund</b>   |               | <b>2007</b>      | <b>2006</b>    |
|  | <b>2007</b>                 | <b>2006</b>   | <b>2007</b>      | <b>2006</b>    |
|  | <b>RM'000</b>               | <b>RM'000</b> | <b>RM'000</b>    | <b>RM'000</b>  |
| <b>Trade payables</b>                              |                             |               |                  |                |
| Due to reinsurers and cedants                      | -                           | -             | 63,108           | 38,879         |
| Due to agents, brokers,<br>co-insurers and insured | -                           | -             | 106,112          | 73,954         |
|  | <u>-</u>                    | <u>-</u>      | <u>169,220</u>   | <u>112,833</u> |
| <b>Sundry payables</b>                             |                             |               |                  |                |
| Other payables                                     | -                           | 63            | 68,024           | 78,443         |
| Deposits from tenants and reinsurer:               | -                           | -             | 13,703           | 11,253         |
| Accruals   | 18                          | 17            | 20,955           | 43,498         |
| Dividends payable                                  | 131,715                     | 1,936         | -                | -              |
| Amount due to ultimate holding<br>company          | 816                         | 987           | -                | -              |
| Amount due to intermediate<br>holding company      | -                           | 114           | -                | -              |
| Amount due to holding company                      | 1,911                       | 2,209         | -                | -              |
| Amount due to Shareholders' fund<br>(Note 9)       | -                           | -             | 672,097          | 354,011        |
| Amount due to General fund<br>(Note 9)             | -                           | -             | 218              | -              |
| Amount due to Linked fund<br>(Note 26)             | -                           | -             | 9,982            | 5,373          |
| Amount due to Life fund (Note 9)                   | -                           | 544           | -                | -              |
|  | <u>134,460</u>              | <u>5,870</u>  | <u>784,979</u>   | <u>492,578</u> |
| Total payables                                     | <u>134,460</u>              | <u>5,870</u>  | <u>954,199</u>   | <u>605,411</u> |

The amounts due to the holding, intermediate holding and ultimate holding companies are unsecured, interest-free and have no fixed terms of repayment.

**12. AGENTS' RETIREMENT BENEFITS**

|                          | <b>Life fund</b> |                |
|--------------------------|------------------|----------------|
|                          | <b>2007</b>      | <b>2006</b>    |
|                          | <b>RM'000</b>    | <b>RM'000</b>  |
| At beginning of year     | 383,803          | 352,753        |
| Provision for the year   | 51,697           | 45,920         |
| Utilised during the year | (16,476)         | (14,870)       |
| At end of year           | <u>419,024</u>   | <u>383,803</u> |
| Payable after 12 months  | <u>341,172</u>   | <u>317,444</u> |

**13. DEFERRED TAXATION**

|  | <b>General business and<br/>shareholders' fund</b> |               | <b>Life fund</b> |               |
|--|--|---------------|------------------|---------------|
|  | <b>2007</b>  | <b>2006</b>   | <b>2007</b>      | <b>2006</b>   |
|  | <b>RM'000</b>                                      | <b>RM'000</b> | <b>RM'000</b>    | <b>RM'000</b> |
| At beginning of year                               | (105)  | (99)          | 8,904            | 9,769         |
| Recognised in the income statement<br>(Note 21)    | <u>222</u>   | <u>(6)</u>    | <u>16,467</u>    | <u>(865)</u>  |
| At end of year                                     | <u>117</u>   | <u>(105)</u>  | <u>25,371</u>    | <u>8,904</u>  |
| Presented after appropriate offsetting as follows: |  |               |                  |               |
| Deferred tax liabilities                           | 117  | -             | 28,850           | 19,234        |
| Deferred tax assets                                | -  | (105)         | (3,479)          | (10,330)      |
|  | <u>117</u>   | <u>(105)</u>  | <u>25,371</u>    | <u>8,904</u>  |

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

**13. DEFERRED TAXATION (CONT'D.)****Deferred Tax Liabilities**

|  | <b>Accelerated<br/>capital allowance<br/>on property, plant<br/>and equipment<br/>RM'000</b> | <b>Accretion of<br/>discounts on<br/>investments<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|---|-------------------------|
| <b>General business and shareholders' fund</b> |  |   |                         |
| At 1 January 2007                              | -  | -   | -                       |
| Recognised in the income statement             | -  | 117   | 117                     |
| At 31 December 2007                            | -  | 117   | 117                     |
| At 1 January 2006                              | -  | -   | -                       |
| Recognised in the income statement             | -  | -   | -                       |
| At 31 December 2006                            | -  | -   | -                       |
| <b>Life fund</b>                               |  |   |                         |
| At 1 January 2007                              | 429  | 18,805  | 19,234                  |
| Recognised in the income statement             | 6,540  | 3,076   | 9,616                   |
| At 31 December 2007                            | 6,969  | 21,881  | 28,850                  |
| At 1 January 2006                              | 11,067   | 20,972  | 32,039                  |
| Recognised in the income statement             | (10,638)   | (2,167)   | (12,805)                |
| At 31 December 2006                            | 429  | 18,805  | 19,234                  |

**Deferred Tax Assets**

|  | <b>Amortisation<br/>of premium<br/>on investments<br/>RM'000</b> | <b>Accretion of<br/>discounts on<br/>investments<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|---|-------------------------|
| <b>General business and shareholders' fund</b> |  |   |                         |
| At 1 January 2007                              | -  | (105)   | (105)                   |
| Recognised in the income statement             | -  | 105   | 105                     |
| At 31 December 2007                            | -  | -   | -                       |
| At 1 January 2006                              | -  | (99)  | (99)                    |
| Recognised in the income statement             | -  | (6)   | (6)                     |
| At 31 December 2006                            | -  | (105)   | (105)                   |
| <b>Life fund</b>                               |  |   |                         |
| At 1 January 2007                              | (8,519)  | (1,811)   | (10,330)                |
| Recognised in the income statement             | 5,930  | 921   | 6,851                   |
| At 31 December 2007                            | (2,589)  | (890)   | (3,479)                 |

**13. DEFERRED TAXATION (CONT'D.)****Deferred Tax Assets (Cont'd.)**

|                                    | <b>Amortisation<br/>of premium<br/>on investments<br/>RM'000</b> | <b>Accretion of<br/>discounts on<br/>investments<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|------------------------------------|--|---|-------------------------|
| At 1 January 2006                  | (15,028)   | (7,242)   | (22,270)                |
| Recognised in the income statement | 6,509  | 5,431   | 11,940                  |
| At 31 December 2006                | <u>(8,519)</u>   | <u>(1,811)</u>  | <u>(10,330)</u>         |

**14. LIFE POLICYHOLDERS' FUND**

|   | <b>2007<br/>RM'000</b> | <b>2006<br/>RM'000</b> |
|---|------------------------|------------------------|
| <b>Actuarial liabilities:</b>   |                        |                        |
| At beginning of year  | <u>20,987,659</u>      | <u>19,195,305</u>      |
| Add: Increase in policy reserves  | 557,751                | 1,005,234              |
| Bonus allocated to participating policyholders<br>(including interim bonus) |                        |                        |
| - from normal surplus   | 1,405,327              | 810,609                |
| Less: Interim bonus   | <u>(30,063)</u>        | <u>(23,489)</u>        |
|   | <u>1,933,015</u>       | <u>1,792,354</u>       |
| At end of year  | <u>22,920,674</u>      | <u>20,987,659</u>      |
| <b>Unallocated surplus:</b>   |                        |                        |
| At beginning of year  | <u>4,565,518</u>       | <u>3,996,964</u>       |
| Add: Surplus arising during the year  | 2,710,381              | 1,809,036              |
| Less: Bonus allocated to policyholders<br>(including interim bonus)         |                        |                        |
| - from normal surplus   | (1,405,327)            | (810,609)              |
| Transfer to income statement  | <u>(676,102)</u>       | <u>(429,873)</u>       |
|   | <u>628,952</u>         | <u>568,554</u>         |
| At end of year  | <u>5,194,470</u>       | <u>4,565,518</u>       |
| Life policyholders' fund at end of year:                                    |                        |                        |
| Actuarial liabilities   | 22,920,674             | 20,987,659             |
| Unallocated surplus   | 5,194,470              | 4,565,518              |
|   | <u>28,115,144</u>      | <u>25,553,177</u>      |

**15. SHARE CAPITAL**

|                          | <b>Number of Ordinary<br/>Shares of RM1 Each</b> |                      | <b>Amount</b>          |                        |
|--------------------------|--|----------------------|------------------------|------------------------|
|                          | <b>2007<br/>'000</b>                             | <b>2006<br/>'000</b> | <b>2007<br/>RM'000</b> | <b>2006<br/>RM'000</b> |
| Authorised:              |  |                      |                        |                        |
| At 1 January/31 December | <u>500,000</u>                                   | <u>500,000</u>       | <u>500,000</u>         | <u>500,000</u>         |
| Issued and fully paid:   |  |                      |                        |                        |
| At 1 January/31 December | <u>100,000</u>                                   | <u>100,000</u>       | <u>100,000</u>         | <u>100,000</u>         |

**16. DIVIDENDS**

|   | <b>Dividends in respect of<br/>Year</b> |                        | <b>Dividends<br/>Recognised in Year</b> |                        |
|---|---|------------------------|---|------------------------|
|   | <b>2007<br/>RM'000</b>                  | <b>2006<br/>RM'000</b> | <b>2007<br/>RM'000</b>                  | <b>2006<br/>RM'000</b> |
| <b>Recognised during the year:</b>  |   |                        |   |                        |
| Final dividend for 2006: RM2.64 per<br>ordinary share   |   |                        |   |                        |
| less 27% taxation, on 100,000,005<br>ordinary shares  |   |                        |   |                        |
| (RM1.927 per share)   | -                                       | 192,720                | 192,720                                 | 280,800                |
| <b>Proposed for approval at AGM<br/>(not recognised as at 31 December):</b>                                 |   |                        |   |                        |
| Final dividend for 2007: RM6.787 per<br>ordinary share less 26% taxation,<br>on 100,000,005 ordinary shares |   |                        |   |                        |
| (RM5.022 per share)   | <u>502,238</u>                          | <u>-</u>               | <u>-</u>                                | <u>-</u>               |
|   | <u>502,238</u>                          | <u>192,720</u>         | <u>192,720</u>                          | <u>280,800</u>         |

At the forthcoming Annual General Meeting, final dividends in respect of the financial year ended 31 December 2007 of RM6.787 per ordinary share on 100,000,005 ordinary shares less 26% taxation amounting to a net dividend payable of RM502,238,025 (RM5.022 per ordinary share) [2006: RM192,720,010 (RM1.927 per ordinary share)] will be proposed for shareholders' approval.

The financial statements for the current financial year do not reflect these proposed dividends. Such dividends, if approved by the shareholders, will be accounted for in the shareholders' equity as appropriations of retained profits in the next financial year ending 31 December 2008.

**17. OPERATING REVENUE**

|   | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---|--|--|-----------------------------|-------------------------|
| <b>2007</b>                             |  |  |                             |                         |
| Gross premiums                          | -  | -                                      | 4,084,144                   | 4,084,144               |
| Investment income:                      |  |  |                             |                         |
| Investment-linked<br>business (Note 26) | -  | -                                      | 31,329                      | 31,329                  |
| Others (Note 18)                        | 9,441                                    | 47                                     | 1,612,469                   | 1,621,957               |
|   | <u>9,441</u>                             | <u>47</u>                              | <u>5,727,942</u>            | <u>5,737,430</u>        |
| <b>2006</b>                             |  |  |                             |                         |
| Gross premiums                          | -  | (2)                                    | 3,899,319                   | 3,899,317               |
| Investment income:                      |  |  |                             | -                       |
| Investment-linked<br>business (Note 26) | -  | -                                      | 18,369                      | 18,369                  |
| Others (Note 18)                        | 5,402                                    | 51                                     | 1,401,790                   | 1,407,243               |
|   | <u>5,402</u>                             | <u>49</u>                              | <u>5,319,478</u>            | <u>5,324,929</u>        |

**18. INVESTMENT INCOME**

|   | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---|--|--|-----------------------------|-------------------------|
| <b>2007</b>   |  |  |                             |                         |
| Gross dividends   |  |  |                             |                         |
| - Quoted investments in Malaysia                            | 383                                      | -                                      | 353,014                     | 353,397                 |
| - Quoted investments<br>outside Malaysia                    | -  | -                                      | 38,123                      | 38,123                  |
| - Unquoted investments in<br>Malaysia                       | 30                                       | -                                      | 12,462                      | 12,492                  |
| Interest income   | 8,676                                    | 47                                     | 1,114,395                   | 1,123,118               |
| Rental of properties  | -  | -                                      | 22,939                      | 22,939                  |
| Investment expenses   | (1)                                      | -                                      | (999)                       | (1,000)                 |
| Accretion of discounts, net<br>of amortisation of premiums: |  |  |                             |                         |
| - bonds and debt securities                                 | 353                                      | -                                      | 70,955                      | 71,308                  |
| - negotiable cert. deposits                                 | -  | -                                      | 1,580                       | 1,580                   |
|   | <u>9,441</u>                             | <u>47</u>                              | <u>1,612,469</u>            | <u>1,621,957</u>        |

**18. INVESTMENT INCOME (CONTD.)**

|   | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---|--|--|-----------------------------|-------------------------|
| <b>2006</b>   |  |  |                             |                         |
| Gross dividends   |  |  |                             |                         |
| - Quoted investments in Malaysia                            | 279                                      | -                                      | 282,727                     | 283,006                 |
| - Quoted investments<br>outside Malaysia                    | -  | -                                      | 57,215                      | 57,215                  |
| - Unquoted investments in<br>Malaysia                       | 35                                       | -                                      | 10,483                      | 10,518                  |
| Interest income   | 4,578                                    | 51                                     | 1,019,916                   | 1,024,545               |
| Rental of properties  | -  | -                                      | 14,988                      | 14,988                  |
| Investment expenses   | (1)                                      | -                                      | (982)                       | (983)                   |
| Accretion of discounts, net<br>of amortisation of premiums: |  |  |                             |                         |
| - bonds and debt securities                                 | (50)                                     | -                                      | 11,670                      | 11,620                  |
| - negotiable cert. deposits                                 | 561                                      | -                                      | 5,773                       | 6,334                   |
|   | <u>5,402</u>                             | <u>51</u>                              | <u>1,401,790</u>            | <u>1,407,243</u>        |

Included in the rental of investment properties is contingent rent for the year ended 31 December 2007 amounting to RM628,898 (2006: RM478,579).

**19. OTHER OPERATING INCOME/(EXPENSES) - NET**

|  | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|--|-----------------------------|-------------------------|
| <b>2007</b>  |  |  |                             |                         |
| Gain on disposal of investments<br>(Provision for)/writeback<br>of impairment: |  |  |                             |                         |
| - investments  | (5)                                      | -                                      | 5,399                       | 5,394                   |
| - owner occupied properties  | -  | -                                      | 1,541                       | 1,541                   |
| - investment properties  | -  | -                                      | 4,718                       | 4,718                   |
| Gain on disposal of property, plant<br>and equipment                           | -  | -                                      | 645                         | 645                     |
| Others   | 1  | -                                      | 5,987                       | 5,988                   |
|  | <u>5,642</u>                             | <u>-</u>                               | <u>1,270,236</u>            | <u>1,275,878</u>        |

**19. OTHER OPERATING INCOME/(EXPENSES) - NET (CONT'D.)**

|  | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|--|-----------------------------|-------------------------|
| <b>2006</b>  |  |  |                             |                         |
| Gain on disposal of investments                      | 497                                      | -                                      | 442,083                     | 442,580                 |
| Writeback of impairment:                             |  |  |                             |                         |
| - investments  | -  | -                                      | 21,054                      | 21,054                  |
| - owner occupied properties                          | -  | -                                      | 655                         | 655                     |
| - investment properties                              | -  | -                                      | 3,512                       | 3,512                   |
| Gain on disposal of property, plant<br>and equipment | -  | -                                      | 3                           | 3                       |
| Gain on disposal of<br>investment properties         | -  | -                                      | 9,040                       | 9,040                   |
| Others   | 13                                       | -                                      | 4,618                       | 4,631                   |
|  | <u>510</u>                               | <u>-</u>                               | <u>480,965</u>              | <u>481,475</u>          |

**20. MANAGEMENT EXPENSES**

|  | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|--|-----------------------------|-------------------------|
| <b>2007</b>                                      |  |  |                             |                         |
| Staff salary and bonus                           | -  | -                                      | 79,648                      | 79,648                  |
| Directors' remuneration (i)                      | -  | -                                      | 1,625                       | 1,625                   |
| Short term accumulating<br>compensated absences  | -  | -                                      | 104                         | 104                     |
| Pension costs - defined<br>contribution plans    | -  | -                                      | 12,035                      | 12,035                  |
| Others   | -  | -                                      | 8,771                       | 8,771                   |
|  | <u>-</u>                                 | <u>-</u>                               | <u>102,183</u>              | <u>102,183</u>          |
| Depreciation of property, plant<br>and equipment | -  | -                                      | 39,601                      | 39,601                  |
| Depreciation of investment<br>properties         | -  | -                                      | 4,701                       | 4,701                   |
| Amortisation of intangible assets                | -  | -                                      | 4,850                       | 4,850                   |
| Amortisation of prepaid land<br>lease payments   | -  | -                                      | 146                         | 146                     |
| Audit fees                                       | 11                                       | 5                                      | 269                         | 285                     |
| Directors' fees (ii)                             | -  | -                                      | 389                         | 389                     |
| Rental of properties                             | -  | -                                      | 6,145                       | 6,145                   |
| Operating lease payment                          | -  | -                                      | 1,102                       | 1,102                   |
| Others   | 2,488                                    | 5                                      | 89,984                      | 92,477                  |
|  | <u>2,499</u>                             | <u>10</u>                              | <u>249,370</u>              | <u>251,879</u>          |

**20. MANAGEMENT EXPENSES (CONT'D.)**

|  | <b>Shareholders'<br/>fund<br/>RM'000</b> | <b>General<br/>business<br/>RM'000</b> | <b>Life fund<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|--|--|-----------------------------|-------------------------|
| <b>2006</b>                                      |  |  |                             |                         |
| Staff salary and bonus                           | -  | -                                      | 80,934                      | 80,934                  |
| Directors' remuneration (i)                      | -  | -                                      | 1,335                       | 1,335                   |
| Short term accumulating<br>compensated absences  | -  | -                                      | (185)                       | (185)                   |
| Pension costs - defined<br>contribution plans    | -  | -                                      | 10,977                      | 10,977                  |
| Others   | -  | -                                      | 6,437                       | 6,437                   |
|  | <u>-</u>                                 | <u>-</u>                               | <u>99,498</u>               | <u>99,498</u>           |
| Depreciation of property, plant<br>and equipment | -  | -                                      | 36,013                      | 36,013                  |
| Depreciation of investment<br>properties         | -  | -                                      | 2,849                       | 2,849                   |
| Amortisation of intangible assets                | -  | -                                      | 4,851                       | 4,851                   |
| Audit fees                                       | 11                                       | 5                                      | 269                         | 285                     |
| Directors' fees (ii)                             | -  | -                                      | 358                         | 358                     |
| Bad and doubtful debts                           | -  | 14                                     | -                           | 14                      |
| Rental of properties                             | -  | -                                      | 3,234                       | 3,234                   |
| Operating lease payment                          | -  | -                                      | 1,259                       | 1,259                   |
| Others   | 131                                      | 1                                      | 87,002                      | 87,134                  |
|  | <u>142</u>                               | <u>20</u>                              | <u>235,333</u>              | <u>235,495</u>          |

(i) The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM1,624,990 (2006: RM1,334,871).

| <b>(ii)</b>             | <b>2007<br/>RM'000</b> | <b>2006<br/>RM'000</b> |
|-------------------------|------------------------|------------------------|
| Non-executive directors |                        |                        |
| - Fees                  | <u>389</u>             | <u>358</u>             |

The directors' fees are subject to the recommendation of the Remuneration Committee to the Board of Directors for endorsement and approval by shareholders at the Annual General Meeting.

**20. MANAGEMENT EXPENSES (CONT'D.)**

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

|                                | <b>Number of Directors</b> |             |
|--------------------------------|----------------------------|-------------|
|                                | <b>2007</b>                | <b>2006</b> |
| <b>Executive directors</b>     |                            |             |
| RM1,300,001 - RM1,350,000      | -                          | 1           |
| RM1,600,001 - RM1,650,000      | 1                          | -           |
|                                | <hr/>                      | <hr/>       |
| <b>Non-Executive directors</b> |                            |             |
| Below RM50,000                 | -                          | 1           |
| RM50,001 - RM100,000           | 2                          | 1           |
| RM100,001 - RM150,000          | 2                          | 2           |
|                                | <hr/>                      | <hr/>       |

**21. TAXATION**

|                                | <b>General business and</b> |               | <b>Life fund</b> |               |
|--------------------------------|-----------------------------|---------------|------------------|---------------|
|                                | <b>shareholders' fund</b>   |               |                  |               |
|                                | <b>2007</b>                 | <b>2006</b>   | <b>2007</b>      | <b>2006</b>   |
|                                | <b>RM'000</b>               | <b>RM'000</b> | <b>RM'000</b>    | <b>RM'000</b> |
| Tax expense for the year:      |                             |               |                  |               |
| Malaysian income tax           | 186,395                     | 121,868       | 218,064          | 141,815       |
| Tax on foreign dividend income | -                           | -             | 9,154            | 8,327         |
| Less : Double taxation relief  | -                           | -             | (5,675)          | (5,204)       |
|                                | <hr/>                       | <hr/>         | <hr/>            | <hr/>         |
|                                | 186,395                     | 121,868       | 221,543          | 144,938       |

**21. TAXATION (CONT'D.)**

|   | <b>General business and</b> |                | <b>Life fund</b> |                |
|---|-----------------------------|----------------|------------------|----------------|
|   | <b>shareholders' fund</b>   |                |                  |                |
|   | <b>2007</b>                 | <b>2006</b>    | <b>2007</b>      | <b>2006</b>    |
|   | <b>RM'000</b>               | <b>RM'000</b>  | <b>RM'000</b>    | <b>RM'000</b>  |
| Deferred tax:   |                             |                |                  |                |
| Relating to origination and reversal of temporary differences (Note 13) | 222                         | (6)            | 16,467           | (865)          |
| Under/(over) provided in prior years:                                   |                             |                |                  |                |
| Malaysian income tax  | 62                          | 133            | 3,550            | (5,225)        |
| Foreign income tax  | -                           | -              | (1,723)          | 2,033          |
|   | <u>62</u>                   | <u>133</u>     | <u>1,827</u>     | <u>(3,192)</u> |
|   | <u>186,679</u>              | <u>121,995</u> | <u>239,837</u>   | <u>140,881</u> |

Domestic income tax for general business and shareholders' fund is calculated at the Malaysian statutory tax rate of 27% (2006: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 26% from the current year's rate of 27%, effective year of assessment 2008 and to 25%, effective year of assessment 2009. The computation of deferred tax as at 31 December 2007 has reflected these changes.

The Malaysian tax charge on the life insurance business is based on the method prescribed under the Income Tax Act, 1967 for life business. The statutory tax rate for the life insurance business is 8%.

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

|                                | <b>General business and</b> |                | <b>Life fund</b> |                  |
|--------------------------------|-----------------------------|----------------|------------------|------------------|
|                                | <b>shareholders' fund</b>   |                |                  |                  |
|                                | <b>2007</b>                 | <b>2006</b>    | <b>2007</b>      | <b>2006</b>      |
|                                | <b>RM'000</b>               | <b>RM'000</b>  | <b>RM'000</b>    | <b>RM'000</b>    |
| Profit/Surplus before taxation | <u>688,924</u>              | <u>435,303</u> | <u>3,477,906</u> | <u>2,931,662</u> |

**21. TAXATION (CONT'D.)**

|  | <b>General business and</b> |                | <b>Life fund</b> |                |
|--|-----------------------------|----------------|------------------|----------------|
|  | <b>shareholders' fund</b>   |                | <b>2007</b>      | <b>2006</b>    |
|  | <b>2007</b>                 | <b>2006</b>    | <b>2007</b>      | <b>2006</b>    |
|  | <b>RM'000</b>               | <b>RM'000</b>  | <b>RM'000</b>    | <b>RM'000</b>  |
| Taxation at Malaysian statutory tax rate of :    |                             |                |                  |                |
| 27% (2006: 28%)                                  | 186,009                     | 121,885        |                  |                |
| 8% (2006: 8%)                                    |                             |                | 278,232          | 234,533        |
| Effect of different tax rates in another country | -                           | -              | 3,479            | 3,123          |
| Income not subject to tax                        | (68)                        | (27)           | (321,356)        | (306,454)      |
| Expenses not deductible for tax purposes         | 676                         | 4              | 277,655          | 212,871        |
| Under/(over) provided in prior years             | 62                          | 133            | 1,827            | (3,192)        |
| Tax expense for the year                         | <u>186,679</u>              | <u>121,995</u> | <u>239,837</u>   | <u>140,881</u> |

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

The Company has not elected for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credits in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act 2007. As at 31 December 2007, the Company has sufficient credits in the Section 108 balance to pay franked dividends amounting to RM518,502,935 (2006: RM214,687,000) out of its retained earnings. If the balance of the retained earnings of RM108,336,739 were to be distributed as dividends, the Company may distribute such dividends under the single tier system.

**22. EARNINGS PER SHARE**

The basic earnings per share are calculated as follows:

|                          | <b>Income<br/>RM'000</b> |                | <b>Weighted<br/>average number<br/>of shares ('000)</b> |                | <b>Earnings per<br/>share (sen)</b> |             |
|--------------------------|--------------------------|----------------|---|----------------|-------------------------------------|-------------|
|                          | <b>2007</b>              | <b>2006</b>    | <b>2007</b>   | <b>2006</b>    | <b>2007</b>                         | <b>2006</b> |
| Net profit for the year  | <u>502,245</u>           | <u>313,308</u> | <u>100,000</u>  | <u>100,000</u> |                                     |             |
| Basic earnings per share |                          |                |   |                | <u>502</u>                          | <u>313</u>  |

**23. NET CLAIMS (RECOVERED)/PAID****General business**

|                                | <b>2007<br/>RM'000</b> | <b>2006<br/>RM'000</b> |
|--------------------------------|------------------------|------------------------|
| Gross claims paid less salvage | (57)                   | 417                    |
| Reinsurance recoveries         | <u>(107)</u>           | <u>(1)</u>             |
| Net claims paid                | (164)                  | 416                    |
| Net outstanding claims:        |                        |                        |
| At end of year                 | 68                     | 105                    |
| At beginning of year           | <u>(105)</u>           | <u>(152)</u>           |
| Net claims (recovered)/paid    | <u>(201)</u>           | <u>369</u>             |

**24. CAPITAL COMMITMENTS**

Capital expenditure approved by Directors but not provided in these financial statements as at 31 December 2007 are as follows:

**Life fund**

|                                   | <b>2007<br/>RM'000</b> | <b>2006<br/>RM'000</b> |
|-----------------------------------|------------------------|------------------------|
| Authorised and contracted for     |                        |                        |
| Property, plant and equipment     | 20,917                 | 43,815                 |
| Investment properties             | 8,751                  | 72,876                 |
| Intangible assets                 | 70,121                 | 96,493                 |
| Others                            | 4,405                  | 12,500                 |
| Authorised but not contracted for |                        |                        |
| Others                            | -                      | 7,837                  |
|                                   | <u>104,194</u>         | <u>233,521</u>         |

**25. CONTINGENT LIABILITIES****Life fund**

|                               | <b>2007</b>   | <b>2006</b>   |
|-------------------------------|---------------|---------------|
|                               | <b>RM'000</b> | <b>RM'000</b> |
| Arising from litigation cases | <u>5,898</u>  | <u>3,915</u>  |

As at end of the financial year, the Company has a few outstanding litigation claims that may incur potential liabilities for the Company. These outstanding litigation claims arise mainly from disputes on claims settlement, agency and staff industrial relation matters.

**26. INVESTMENT-LINKED BUSINESS****BALANCE SHEET AS AT 31 DECEMBER 2007**

|   | <b>2007</b>      | <b>2006</b>    |
|---|------------------|----------------|
|   | <b>RM'000</b>    | <b>RM'000</b>  |
| <b>ASSETS</b>                                 |                  |                |
| Investments (Note A)                          | 1,032,029        | 634,997        |
| Amount due from brokers                       | 1,746            | 1,138          |
| Other receivables                             | 2,982            | 2,152          |
| Amount due from Life fund (Note 11)           | 9,982            | 5,373          |
| Tax recoverable                               | -                | 503            |
| Cash and bank balances                        | 1,257            | 1,679          |
| <b>Investment-linked business assets</b>      | <u>1,047,996</u> | <u>645,842</u> |
| <b>LIABILITIES</b>                            |                  |                |
| Other payables                                | 7,928            | 7,504          |
| Provision for surrender claims                | 10,067           | -              |
| Tax payable                                   | 6,272            | -              |
| Deferred tax liabilities                      | 11,909           | 5,914          |
| Amount due to Life fund (Note 9)              | -                | -              |
| <b>Investment-linked business liabilities</b> | <u>36,176</u>    | <u>13,418</u>  |
| <b>NET ASSET VALUE OF FUNDS</b>               | <u>1,011,820</u> | <u>632,424</u> |

**26. INVESTMENT-LINKED BUSINESS (CONT'D.)****BALANCE SHEET AS AT 31 DECEMBER 2007 (Cont'd.)**

|   | <b>2007</b>      | <b>2006</b>    |
|---|------------------|----------------|
|   | <b>RM'000</b>    | <b>RM'000</b>  |
| <b>REPRESENTED BY:</b>                      |                  |                |
| Net asset value as at beginning of the year | 632,424          | 394,897        |
| Net Surplus after taxation                  | 192,372          | 96,584         |
| Net creation of units                       | 329,694          | 230,316        |
| Net cancellation of units                   | (142,670)        | (89,373)       |
| Net asset value as at end of the year       | <u>1,011,820</u> | <u>632,424</u> |
| <b>Unitholders' accounts</b>                | <u>1,011,820</u> | <u>632,424</u> |

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

|  | <b>2007</b>    | <b>2006</b>    |
|--|----------------|----------------|
|  | <b>RM'000</b>  | <b>RM'000</b>  |
| Investment income (Note 17)                  | 31,329         | 18,369         |
| Gain on disposal of investments              | 119,504        | 27,781         |
| Unrealised capital gain on investments - net | 74,721         | 76,903         |
| Management expenses                          | (10,681)       | (6,058)        |
| Loss on disposal of investment               | (6,251)        | (12,190)       |
| Other expenses                               | (78)           | (35)           |
| Surplus before taxation                      | <u>208,544</u> | <u>104,770</u> |
| Taxation (Note B)                            | (16,172)       | (8,186)        |
| Net Surplus for the year after taxation      | <u>192,372</u> | <u>96,584</u>  |

**A. INVESTMENTS**

|  | <b>2007</b>    | <b>2006</b>    |
|--|----------------|----------------|
|  | <b>RM'000</b>  | <b>RM'000</b>  |
| Equity securities in corporations, at cost |                |                |
| Quoted in Malaysia                         | 471,034        | 347,644        |
| Unrealised gains                           | 137,320        | 62,271         |
| At market value                            | <u>608,354</u> | <u>409,915</u> |
| Other investments, at cost                 |                |                |
| Quoted in Malaysia                         | 25,882         | 10,521         |
| Unrealised gains                           | 6,193          | 716            |
| At market value                            | <u>32,075</u>  | <u>11,237</u>  |

**26. INVESTMENT-LINKED BUSINESS (CONT'D.)****A. INVESTMENTS (CONT'D.)**

|   | <b>2007</b>      | <b>2006</b>    |
|---|------------------|----------------|
|   | <b>RM'000</b>    | <b>RM'000</b>  |
| Exchange traded fund, at cost                                   |                  |                |
| Quoted outside Malaysia   | 3,377            | 1,154          |
| Unrealised gains  | 25               | 39             |
| At market value   | <u>3,402</u>     | <u>1,193</u>   |
| <br>  |                  |                |
| Loan stocks of corporations, at cost                            |                  |                |
| Quoted in Malaysia  | 50               | 250            |
| Unrealised gains  | 19               | 82             |
| At market value   | <u>69</u>        | <u>332</u>     |
| <br>  |                  |                |
| Malaysian Government papers, at cost                            |                  |                |
| Quoted in Malaysia  | 1,342            | -              |
| Unrealised gains  | (46)             | -              |
| At market value   | <u>1,296</u>     | <u>-</u>       |
| <br>  |                  |                |
| Corporate debt securities, at cost                              |                  |                |
| Quoted in Malaysia  | 36               | 260            |
| Unquoted in Malaysia  | 186,746          | 125,547        |
| Unrealised gains  |                  |                |
| Quoted in Malaysia  | 69               | 199            |
| Unquoted in Malaysia  | 2,782            | 8,384          |
| At market value   | <u>189,633</u>   | <u>134,390</u> |
| <br>  |                  |                |
| Secured loans   | <u>-</u>         | <u>-</u>       |
| <br>  |                  |                |
| Fixed deposits and repurchase agreements with<br>licensed banks | <u>197,200</u>   | <u>77,930</u>  |
| <br>  |                  |                |
| Total investments   | <u>1,032,029</u> | <u>634,997</u> |

**26. INVESTMENT-LINKED BUSINESS (CONT'D.)****A. INVESTMENTS (CONT'D.)****Maturity structure of investments, at cost  
(excluding equity investments)**

|  | <b>Within 1<br/>Year<br/>RM'000</b> | <b>1 - 2<br/>Years<br/>RM'000</b> | <b>2 - 3<br/>Years<br/>RM'000</b> | <b>3 - 4<br/>Years<br/>RM'000</b> | <b>4 - 5<br/>Years<br/>RM'000</b> | <b>More<br/>Than 5<br/>Years<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---|-------------------------|
| <b>2007</b>  |                                     |                                   |                                   |                                   |                                   |   |                         |
| Malaysian Government papers                                  | -                                   | -                                 | -                                 | -                                 | -                                 | 1,342                                       | 1,342                   |
| Quoted loan stock of corporations                            | 50                                  | -                                 | -                                 | -                                 | -                                 | -   | 50                      |
| Quoted corporate debt securities                             | -                                   | -                                 | -                                 | -                                 | -                                 | 36  | 36                      |
| Unquoted corporate debt securities                           | 38,386                              | 11,102                            | 5,684                             | 45,485                            | 36,000                            | 50,089                                      | 186,746                 |
| Fixed deposits and repurchase agreements with Licensed banks | 197,200                             | -                                 | -                                 | -                                 | -                                 | -   | 197,200                 |
| <b>2006</b>  |                                     |                                   |                                   |                                   |                                   |   |                         |
| Quoted loan stock of corporations                            | -                                   | 50                                | 200                               | -                                 | -                                 | -   | 250                     |
| Quoted corporate debt securities                             | -                                   | -                                 | -                                 | -                                 | -                                 | 260   | 260                     |
| Unquoted corporate debt securities                           | 9,786                               | 5,970                             | 21,693                            | 9,727                             | 6,077                             | 72,294                                      | 125,547                 |
| Fixed deposits and repurchase agreements with Licensed banks | 77,930                              | -                                 | -                                 | -                                 | -                                 | -   | 77,930                  |

**26. INVESTMENT-LINKED BUSINESS (CONT'D.)****A. INVESTMENTS (CONT'D.)**

The weighted average effective interest rates of investments at the balance sheet date were as follows:

|  | <b>2007</b><br><b>%</b><br><b>per annum</b> | <b>2006</b><br><b>%</b><br><b>per annum</b> |
|--|---|---|
| Malaysian Government papers                                  | 4.30  | -   |
| Quoted loan stock of corporations                            | 5.50  | 3.54  |
| Quoted corporate debt securities                             | 14.49                                       | 8.28  |
| Unquoted corporate debt securities                           | 4.67  | 5.75  |
| Fixed deposits and repurchase agreements with licensed banks | <u>3.47</u>                                 | <u>3.48</u>                                 |

The average maturities of deposits as at the end of the financial year were 36 days (2006: 31 days).

**B. TAXATION**

|   | <b>2007</b><br><b>RM'000</b> | <b>2006</b><br><b>RM'000</b> |
|---|------------------------------|------------------------------|
| Tax expense for the year:                                     |                              |                              |
| Malaysian income tax  | 10,177                       | 2,008                        |
| Deferred tax:   |                              |                              |
| Relating to origination and reversal of temporary differences | <u>5,995</u>                 | <u>6,178</u>                 |
|   | <u>16,172</u>                | <u>8,186</u>                 |

The Malaysian tax charge on the investment-linked business is based on the method prescribed under the Income Tax Act, 1967 for life business.

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

|                         | <b>2007</b><br><b>RM'000</b> | <b>2006</b><br><b>RM'000</b> |
|-------------------------|------------------------------|------------------------------|
| Surplus before taxation | <u>208,544</u>               | <u>104,770</u>               |

**26. INVESTMENT-LINKED BUSINESS (CONT'D.)****B. TAXATION (CONT'D.)**

|   | <b>2007</b>   | <b>2006</b>   |
|---|---------------|---------------|
|   | <b>RM'000</b> | <b>RM'000</b> |
| Taxation at Malaysian statutory tax rate of 8% (2006: 8%) | 16,684        | 8,381         |
| Income not subject to tax                                 | (779)         | (327)         |
| Expenses not deductible for tax purposes                  | 267           | 132           |
| Tax expense for the year                                  | <u>16,172</u> | <u>8,186</u>  |

**27. SEGMENT INFORMATION ON CASH FLOW**

|  | <b>Shareholders'</b> | <b>General</b>  | <b>Life fund</b> | <b>Total</b>   |
|--|----------------------|-----------------|------------------|----------------|
|  | <b>fund</b>          | <b>business</b> | <b>RM'000</b>    | <b>RM'000</b>  |
|  | <b>RM'000</b>        | <b>RM'000</b>   | <b>RM'000</b>    | <b>RM'000</b>  |
| <b>2007</b>  |                      |                 |                  |                |
| Cash flow from:                                      |                      |                 |                  |                |
| Operating activities                                 | 62,331               | (58)            | 152,172          | 214,445        |
| Investing activities                                 | -                    | -               | (152,947)        | (152,947)      |
| Financing activities                                 | (62,377)             | -               | -                | (62,377)       |
| Net (decrease)/increase in cash and cash equivalents | (46)                 | (58)            | (775)            | (879)          |
| Cash and cash equivalents:                           |                      |                 |                  |                |
| At beginning of year                                 | 175                  | 107             | 113,095          | 113,377        |
| At end of year                                       | <u>129</u>           | <u>49</u>       | <u>112,320</u>   | <u>112,498</u> |
| <b>2006</b>  |                      |                 |                  |                |
| Cash flow from:                                      |                      |                 |                  |                |
| Operating activities                                 | 280,929              | (37)            | 164,077          | 444,969        |
| Investing activities                                 | -                    | -               | (120,050)        | (120,050)      |
| Financing activities                                 | (280,884)            | -               | -                | (280,884)      |
| Net increase/(decrease) in cash and cash equivalents | 45                   | (37)            | 44,027           | 44,035         |
| Cash and cash equivalents:                           |                      |                 |                  |                |
| At beginning of year                                 | 130                  | 144             | 69,068           | 69,342         |
| At end of year                                       | <u>175</u>           | <u>107</u>      | <u>113,095</u>   | <u>113,377</u> |

**28. OPERATING LEASE ARRANGEMENTS****(a) The Company as lessee**

The Company has entered into operating lease agreements for the use of buildings and plant and machinery. These leases have an average lease term ranging between 3 and 5 years.

The future aggregate minimum lease payments under operating lease contracted for as at the balance sheet date but not recognised as liabilities, are as follows:

|  | <b>2007</b>   | <b>2006</b>   |
|--|---------------|---------------|
|  | <b>RM'000</b> | <b>RM'000</b> |
| Future minimum rental payments:              |               |               |
| Not later than 1 year                        | 43            | 228           |
| Later than 1 year and not later than 5 years | 1,600         | 1,786         |
| Later than 5 years                           | -             | -             |
|  | <u>1,643</u>  | <u>2,014</u>  |

The lease payments recognised in the Revenue Account during the financial year are described in Note 20.

**(b) The Company as lessor**

The Company has entered into operating lease agreements on its investment property portfolios and certain self-occupied properties. These leases have remaining lease terms ranging between 1 to 3 years. These leases generally include a clause to enable revision of rental charge upon expiry of the initial term based on prevailing market rates. Certain leases include contingent rental arrangements computed based on sales or profits achieved by tenants.

The future minimum lease payments receivable under operating lease contracted for as at the balance sheet date but not recognised as receivables, are as follows:

|  | <b>2007</b>   | <b>2006</b>   |
|--|---------------|---------------|
|  | <b>RM'000</b> | <b>RM'000</b> |
| Not later than 1 year                        | 12,128        | 6,335         |
| Later than 1 year and not later than 5 years | 48,379        | 49,332        |
| Later than 5 years                           | 55            | -             |
|  | <u>60,562</u> | <u>55,667</u> |

Rental income, including contingent rent, recognised in the Revenue Account during the financial year is described in Note 18.

**29. RELATED PARTY DISCLOSURES**

(a) The Company had the following transactions with related parties during the financial year:

|  | <b>2007</b>   | <b>2006</b>   |
|--|---------------|---------------|
|  | <b>RM'000</b> | <b>RM'000</b> |
| Property rentals received                          |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 855           | 842           |
| - Overseas Assurance Corporation (Malaysia) Berhad | 1,154         | 1,019         |
| Service charges paid                               |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 19,789        | 17,127        |
| - E2 Power Sdn Bhd                                 | 147           | 74            |
| Service charges received                           |               |               |
| - Overseas Assurance Corporation (Malaysia) Berhad | 1,115         | 1,336         |
| Premium paid                                       |               |               |
| - Overseas Assurance Corporation (Malaysia) Berhad | 1,986         | 1,857         |
| Premium received                                   |               |               |
| - Overseas Assurance Corporation (Malaysia) Berhad | 108           | 99            |
| Commission received                                |               |               |
| - Overseas Assurance Corporation (Malaysia) Berhad | 306           | 281           |
| Commission fees paid                               |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 3,920         | 4,416         |
| - OCBC Securities Private Limited                  | 1,074         | 832           |
| Investment in preference shares                    |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 100,000       | 100,000       |
| Disposal of shares                                 |               |               |
| - The Great Eastern Trust Private Limited          | 201,041       | -             |
| Investment in redeemable subordinated bonds        |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 100,000       | -             |
| Cash and bank balances                             |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 106,898       | 105,255       |
| Fixed deposits and repurchase agreements           |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 846,694       | 679,284       |
| Interest income                                    |               |               |
| - OCBC Bank (Malaysia) Berhad                      | 33,440        | 30,373        |

**29. RELATED PARTY DISCLOSURES (CONT'D.)**

- (a) The Company had the following transactions with related parties during the financial year: (Cont'd.)

|  | <b>2007</b>   | <b>2006</b>   |
|--|---------------|---------------|
|  | <b>RM'000</b> | <b>RM'000</b> |
| Dividend income from preference shares     |               |               |
| - OCBC Bank (Malaysia) Berhad              | 6,178         | 6,264         |
| Bank charges                               |               |               |
| - OCBC Bank (Malaysia) Berhad              | 1,031         | 965           |
| Employee Share Option Scheme paid          |               |               |
| - Overseas Chinese Banking Corporation Ltd | 875           | -             |

Related companies are companies within the OCBC groups:

- (i) The sale and purchase of insurance policies to related companies are made according to normal market prices and at terms and conditions no more favourable than those to other customers and employees.
- (ii) Rental of property to related parties are made according to normal market prices, terms and conditions.
- (iii) Payment of service charges to related parties are made according to normal market prices.
- (iv) The interest income arose mainly from investment in fixed deposits and repurchase agreements which are made according to prevailing market rates, terms and conditions.
- (v) The dividend income arose from investment in OCBC Bank (Malaysia) Bhd preference shares which are made according to arms length terms and conditions. The investment in OCBC (Malaysia) Bhd preference shares amounting to RM100 million was approved by the Board.
- (vi) The purchase of OCBC Bank (Malaysia) Bhd Redeemable Subordinated Bonds amounting to RM100 million was made at arms length and on normal commercial terms no more favourable than from those generally available to public. The purchase was approved by the Board.
- (vii) The disposal of shares amounting to RM201 million to The Great Eastern Trust Private Ltd was made at arms length and on normal commercial terms. The disposal was approved by the Board.

**29. RELATED PARTY DISCLOSURES (CONT'D.)**

(a) The Company had the following transactions with related parties during the financial year: (Cont'd.)

(viii) The Company has paid Employee Share Option Scheme ("ESOS") for its employees to the ultimate holding company during the year.

**(b) Compensation of key management personnel**

The remuneration of directors and other members of key management during the period was as follows:

|                              | <b>2007</b>   | <b>2006</b>   |
|------------------------------|---------------|---------------|
|                              | <b>RM'000</b> | <b>RM'000</b> |
| Short-term employee benefits | 4,880         | 3,975         |
| Other long-term benefits     | 912           | 481           |
| Share-based payment          | 189           | 251           |
|                              | <u>5,981</u>  | <u>4,707</u>  |

Included in the compensation of key management personnel are:

|                                   | <b>2007</b>   | <b>2006</b>   |
|-----------------------------------|---------------|---------------|
|                                   | <b>RM'000</b> | <b>RM'000</b> |
| Directors' remuneration (Note 20) | <u>1,625</u>  | <u>1,335</u>  |

**30. RISK MANAGEMENT POLICIES****Governance**

The underlying premise of the Enterprise Risk Management ("ERM") Framework, known as RK20.12, is that the Company exists to provide value for its stakeholders and in growing stakeholders value, the Company will need to undertake risks. The challenge is to strike an optimal balance between building controls to protect against risks while not jeopardizing the Company's resilience and competitiveness. Risk management is considered an integral part of managing the Company's core business and the ERM Framework is designed to identify potential events that may affect the Company, and to manage risk within the approved risk appetite and to provide reasonable assurance regarding the achievement of the Company's objectives. The Risk Management Department spearheads the development and implementation of the ERM Framework for the Company.

### **30. RISK MANAGEMENT POLICIES (CONT'D.)**

The Board Risk Committee (“BRC”), constituted in 2003, provides oversight on risk management initiatives. Detailed risk management activities are undertaken by the following Management Committees comprising the Chief Executive Officer and key members of Senior Management:

- Senior Management Team (“SMT”)
- Asset-liability Committee (“ALC”)
- Credit Risk Committee (“CRC”)
- Real Estate Committee (“REC”)
- Product Pricing Committee (“PPC”)

The SMT is responsible for formulating the Company’s corporate vision, mission, core values, financial goals and business portfolio mix and reviewing the Company’s risk profile. It also reviews and monitors the execution of the Company’s corporate strategy and oversees the development and deployment of resources for growth in markets in which the Company operates. In addition, the SMT is responsible for overseeing the management of operational risks faced by the Company, including the monitoring of related limits and policies such as underwriting limits and business continuity plans.

The ALC oversees the formulation and implementation of the investment strategy, asset mix and pricing interest rate of products to determine the appropriate asset/liability match. Pricing risk pertains to the risk of insurance premium rates being insufficient to meet the obligations of the policy benefits and the general cost of carrying on the business. Such a situation can arise when there is an adverse change in the expected long-term investment return, and/or mortality and/or morbidity experience and/or an exacerbated increase in operating costs. Generally, products are developed and priced after considerable market research to provide latitude in asset allocation.

The CRC monitors credit risk management activities across all categories of investments according to the prescribed credit policy guidelines and authorized limits. The CRC has the authority to approve loans and credit transactions up to a certain prescribed limit depending on instrument types and rating. Transactions greater than the CRC’s limit require the approval of the Board of Directors (“Board”) through the ALC.

The REC oversees and implements the policies governing property investment and management activities of the Company. The REC also considers investment or divestment opportunities for the real estate portfolio in line with the real estate mandate, and where appropriate submits such opportunities for the BRC’s review and recommendation to the Board for approval.

The PPC oversees the product development and launch process. In addition, the PPC regularly reviews and monitors the performance of new and existing products.

### **30. RISK MANAGEMENT POLICIES (CONT'D.)**

#### **Regulatory**

Insurers have to comply with the Malaysian Insurance Act and Regulations, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policies rests with the Board. The Board exercises oversight on the investments to safeguard the interests of the policyholders and shareholders.

#### **Risk And Capital**

The management of risk and capital is guided by the ERM Framework. It comprises two distinct components, namely the risk measurement model for financial risks and the control self assessment process for business and operational risks. The risk measurement model strives to achieve the dual objectives of consistency and economic basis. The control self assessment is a systematic process by which an individual business unit analyses its own business processes step by step to identify the strengths and weaknesses of its risk control environment that could have a potential impact on its ability to achieve the Company's business objectives. Together, the two components provide a disciplined risk management framework that guides the Company in the achievement of its goals and objectives through active asset and liability management, as well as strategic and tactical risk and capital allocations.

The principal activities of the Company are the provision of financial advisory services coupled with insurance protection against risks such as mortality and morbidity (health, critical illness, disability and personal accident). The risks inherent in the insurance business include, but are not limited to the following:-

#### **Insurance Risk**

Insurance risk comprises of both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claims experience is different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims. Sources of risks include policy lapses and policy claims such as mortality, morbidity and expenses.

The Company works closely with reinsurers to put in place a prudent underwriting policy to ensure appropriate risk classification and premium levels. The Company's reinsurance management strategy and policy are reviewed annually by the BRC and SMT. Catastrophe reinsurance is procured to limit catastrophic losses.

The SMT reviews trends and claims experience for these risks, along with the lapse and surrender experience to ensure that appropriate policies, guidelines and limits put in place to manage these risks remain adequate and appropriate.

### **30. RISK MANAGEMENT POLICIES (CONT'D.)**

#### **Insurance Risk (Cont'd.)**

A substantial portion of the Company's life assurance funds is participating in nature. In the event of volatile investment climate and/or unusual claims experience, the insurer has the option of revising the bonuses and dividends payable to policyholders.

Dynamic Solvency Testing ("DST") is performed annually by the Appointed Actuary ("AA"), for endorsement by the Board. The purpose of the DST is to test the future solvency of the life fund under various scenarios according to the prescribed statutory valuation basis, simulating drastic changes in major parameters such as new business volume, investment environment, expense patterns, mortality/morbidity patterns and lapse rates.

Gross Premium Valuation ("GPV") is also carried out annually by the AA. The purpose of the GPV is to assess the adequacy of the projected inflows of premiums and investment income vis à-vis the expenses and long-term benefits due to policyholders including but not limited to, reversionary and cash bonuses, terminal (or maturity) bonuses and guaranteed returns (for non-participating products/ policy benefits) for the in-force block of business. GPV is submitted to the Board for approval and it provides the basis for the annual declaration of bonuses to participating policyholders for vesting to the respective insurance policies and declaration of profits to shareholders through the Income Statement.

For investment-linked funds, the risk exposure for the Company is limited only to the underwriting and expenses aspect as all investment risks are borne by the policyholder.

#### **Market Risk**

Market risk arises when the market value of assets and liabilities do not move consistently as financial markets change. Changes in interest rates, foreign exchange rates, equity prices and alternative investment prices can impact present and future earnings of the insurance operations as well as shareholders' equity.

The Company is exposed to market risk in the investments of the Shareholders' Fund as well as in the mismatch risk between the asset and liability of the Insurance Funds. The ALC actively manages market risk through setting the investment policy and asset allocation, approving portfolio construction and risk measurement methodologies, reviewing hedging and alternative risk transfer strategies, and reviewing the DST done by the AA annually. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework.

Management of market risks resulting from changes in interest rates and currency exchange rates, volatility in equity price, as well as other risks like credit, real estate and liquidity risks are briefly described as follows:-

**30. RISK MANAGEMENT POLICIES (CONT'D.)****Market Risk (Cont'd.)****(a) Interest rate risk**

The Company is exposed to interest rate risk through (i) investments in fixed income instruments in both the Shareholders' Fund and the Insurance Fund and (ii) policy liabilities in the Insurance Fund. Since the Shareholders' Fund has exposure to investments in fixed income instruments but no exposure to insurance policies liabilities, it is likely to incur economic loss when interest rates rise. Given the long duration of policy liabilities and the uncertainty of cash flows for the Insurance Fund, it is not possible to hold assets that will perfectly match policy liabilities. This results in an interest rate risk or mismatch risk, which is managed and monitored by the ALC. On the other hand, the Insurance Fund is likely to incur economic loss when interest rates drop since the average maturity of policyholders' liabilities are generally longer than the average maturity of the fixed income assets. To deal with this risk, the Company focused on achieving a desired overall interest rate profile (which may change over time) based on the Management's longer-term view of interest rates and economic conditions.

**(b) Foreign currency risk**

Investments denominated in foreign currencies are limited to 10% with no country limit, as prescribed by the regulator. Most of the foreign currency risk comes from the Company's Singapore core holdings, which are long-term in nature with good dividends on purchase cost. The percentage exposure is small.

**(c) Equity price risk**

Equity price risk is the most volatile of all risk types. Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where the Company through its investments in the Shareholders' Fund and Insurance Fund, bears all or most of the volatility in returns and investment performance risk. Equity price risk also exists in investment linked products where the revenues of the insurance operations are linked to the value of the underlying equity funds since this has an impact on the level of fees earned. A robust monitoring process is in place to activate appropriate risk transfer strategies to limit the downside risk at certain predetermined levels. Limits are set for single security holdings as a percentage of equity holdings. The monitoring process includes regular stress testing via sensitivity of the surplus to different weightings assuming different adverse scenarios aimed at determining the maximum drop the portfolio can take before the surplus turns negative under unexpected market influences.

**30. RISK MANAGEMENT POLICIES (CONT'D.)****Market Risk (Cont'd.)****(d) Real estate price risk**

The Company is exposed to property price risk through the properties that it owns through the Insurance Fund. Due to the special nature of this risk, every property deal is reviewed by the BRC regardless of its value, but subject to approval by the Board. The REC assists in deliberating matters relating to property, including real estate guidelines, risk management, performance, expenditure, operations and facilities management.

**(e) Cash flow and liquidity risk**

Cash flow and liquidity risk arises when a company is unable to meet its obligations at reasonable cost when required to do so. This typically happens when the investments in the portfolio are illiquid. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times. The projected cash flows from in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders payments. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain although it has been quite stable over the past several years.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of a surrender penalty in insurance contracts also protects the Company from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates.

**(f) Credit risk**

The Company is exposed to credit risk through (i) investment in bonds, (ii) corporate lending activities and (iii) exposure to counter party's credit in reinsurance contracts and money market placements. For all three types of exposures, financial loss may materialize as a result of credit default by the borrower or counter party. For investment in bonds, financial loss may materialize as a result of the widening credit spread or downgrade of credit rating.

### 30. RISK MANAGEMENT POLICIES (CONT'D.)

#### Market Risk (Cont'd.)

##### (f) *Credit risk (Cont'd.)*

The task of evaluating and monitoring credit risk is undertaken by the CRC, which in turn reports to the ALC. The Company has internal limits by issuer or counter party and by credit ratings. These limits are actively monitored to manage credit and concentration risk. These limits are reviewed on a regular basis by the CRC. The creditworthiness of the reinsurers and banks is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

##### (g) *Concentration risk*

An important element of managing both market and credit risk is to actively manage concentration to specific issuers, counter-parties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage this risk. These limits are reviewed on a regular basis by the CRC.

#### Business and Operational Risk

Based on the Group's Enterprise Risk Framework, business and operational risks have been grouped into five main categories:-

- (a) ***Business risk*** – includes the failure of business strategy; failure of product design, development and pricing strategy; failure of marketing and communication strategy; and market misconduct.
- (b) ***Operational risk - external events*** includes regulatory requirements; liability and legal disputes; fraud; business interruption; failure of service providers and outsourced vendors; and damage to property and environment.
- (c) ***Operational risk - processes*** includes failure of processes and procedures; expense and cost overrun; and project failure.
- (d) ***Operational risk - systems*** includes failure of systems availability, capacity, utilization and IT infrastructure; and failure of systems security.
- (e) ***Operational risk - people*** includes lagging customer service quality; lack of competencies; and lack of succession of key positions.

**30. RISK MANAGEMENT POLICIES (CONT'D.)****Business and Operational Risk (Cont'd.)**

The day-to-day management of business and operational risk is effected through the maintenance of a comprehensive system of internal controls, supported by an infrastructure of systems and procedures to monitor processes and transactions. The SMT reviews and monitors business and operational issues at its monthly meetings.

The Risk Management Department in collaboration with various business and support units assesses and monitors the risks identified and the implementation of risk mitigation plans, the results of which are reported to the SMT and BRC periodically.

The Internal Audit team reviews the systems of internal control to assess their effectiveness and continued relevance, and report at least quarterly to the Audit Committee.

**31. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The aggregate net fair values of financial assets/liabilities on the balance sheet of the Company other than those disclosed elsewhere in the financial statements are represented as follows:

|  | 2007                         |                      | 2006                         |                      |
|--|------------------------------|----------------------|------------------------------|----------------------|
|  | Carrying<br>amount<br>RM'000 | Fair value<br>RM'000 | Carrying<br>amount<br>RM'000 | Fair value<br>RM'000 |
| <b>Life fund</b>                                   |                              |                      |                              |                      |
| Unquoted investments (Note 5):                     |                              |                      |                              |                      |
| Shares of corporations                             | 200,452                      | [i]                  | 202,675                      | [i]                  |
| Corporate debt securities                          | 11,654,957                   | 12,031,557           | 8,834,116                    | 9,332,143            |
| Amount due from related<br>corporations (Note 9)   | -                            | [ii]                 | -                            | [ii]                 |
| Loans (Note 8)                                     | 3,803,951                    | [iii]                | 3,738,806                    | [iii]                |
| <b>General business and<br/>shareholders' fund</b> |                              |                      |                              |                      |
| Unquoted investments (Note 5):                     |                              |                      |                              |                      |
| Share of corporations                              | 292                          | [i]                  | 292                          | [i]                  |
| Corporate debt securities                          | 39,878                       | 39,879               | -                            | -                    |
| Amount due from related<br>corporations (Note 9)   | 617                          | [ii]                 | 358                          | [ii]                 |
| Amount due to related<br>corporations (Note 11)    | (2,727)                      | [ii]                 | (3,310)                      | [ii]                 |

**31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)**

- (i) It is not practical to estimate the fair value of the Company's unquoted equity securities of corporations because of lack of quoted market prices at balance sheet date. However, the Company believes that the carrying amount represents the recoverable values.
- (ii) It is not practical to estimate fair value of amounts due to/from related corporations due principally to a lack of fixed repayment term entered by the parties involved. However, the Company does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

Investments in unquoted corporate debt securities were valued by taking the average indicative prices provided by three (3) principal banks.

The carrying amounts of trade and other receivables/payables, cash and cash equivalents approximate their fair values due to the relatively short term maturity of these financial instruments.

- (iii) It is not practical to estimate the fair value of loans receivable in the absence of quoted market prices at the balance sheet date. However, the Company believes the carrying value represents the recoverable value.

**32. COMPARATIVE FIGURES**

The presentation and classification of items in the current year's financial statements have been consistent with the previous financial year except that certain comparative figures have been reclassified to conform with current year's presentation.

|                          | <b>As<br/>Previously<br/>Stated<br/>RM'000</b> | <b>Reclassi-<br/>fication<br/>RM'000</b> | <b>As<br/>Restated<br/>RM'000</b> |
|--------------------------|--|--|-----------------------------------|
| <b>Life fund</b>         |  |  |                                   |
| Life policyholders' fund | 26,185,601                                     | (632,424)                                | 25,553,177                        |
| Unitholders' accounts    | -  | 632,424                                  | 632,424                           |
|                          | <hr/>  | <hr/>                                    | <hr/>                             |