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A N N U A L
R E P O R T



KURNIA INSURANS (MALAYSIA) BERHAD
(Company No.44191-P) (Incorporated in Malaysia)

Menara Kurnia, 9, Jalan PJS 8/9
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Dato' Adrian Loh Heong Chow
CHAIRMAN

Dato' Quah Teong Moo
EXECUTIVE DIRECTOR

Datuk Kua Sian Kooi
DIRECTOR

Encik Ali Riza Bin Haji Abdul Samad
DIRECTOR

Mr Yuen Choong Lai
DIRECTOR

Tuan Haji Abdul Samad
DIRECTOR (RETIRED WEF 2 NOVEMBER 2004)

EXECUTIVE COMMITTEE

Datuk Kua Sian Kooi
GROUP EXECUTIVE CHAIRMAN

Datuk Steven Kua Chung Sen
GROUP MANAGING DIRECTOR

Dato' Adrian Loh Heong Chow
GROUP EXECUTIVE DIRECTOR

COMPANY SECRETARY

Ms Chung Pei Pei
COMPANY SECRETARY

SENIOR MANAGEMENT COMMITTEE

Dato' Quah Teong Moo
EXECUTIVE DIRECTOR

Mr Kong Shu Yin
CHIEF EXECUTIVE OFFICER

Encik Zainal Sehat
SENIOR GENERAL MANAGER – MARKETING & CORPORATE

Mr San Chee Kit
GENERAL MANAGER – FINANCE, ADMINISTRATION & HUMAN RESOURCE

Mr Ng Kok Piew
GENERAL MANAGER – CLAIMS / UNDERWRITING

SENIOR MANAGEMENT

Mr Lim Seng Gee
GENERAL MANAGER – SOUTHERN / CREDIT CONTROL

Mr Khor Liang Hing
GENERAL MANAGER – TASK FORCE

Encik Kamal Arifin Dato' Zakaria
GENERAL MANAGER – KLANG VALLEY

Encik Sallehuddin Dato' Ahmad
DEPUTY GENERAL MANAGER – SELANGOR

Mdm Lee Khim Kee
ASST GENERAL MANAGER – ADMINISTRATION, HUMAN RESOURCE,
QUALITY ASSURANCE & CORPORATE COMMUNICATIONS

Puan Rosliza Md Yusoff
ASST GENERAL MANAGER – CENTRAL CLAIMS

Mr Mak Fatt Seng
ASST GENERAL MANAGER – WILAYAH CLAIMS

Mr Lee Wai Kwon
ASST GENERAL MANAGER – INFORMATION TECHNOLOGY

Mr Ann Chong Heng
ASST GENERAL MANAGER – MAIN BRANCH

Mr Kuat Gu Liang
ASST GENERAL MANAGER – KEDAH

Mr Ooi Hooi Seong
ASST GENERAL MANAGER – PENANG

Mr Lew Kot Kua
ASST GENERAL MANAGER – JOHOR

Mr Chow Wey Ming
ASST GENERAL MANAGER – WILAYAH

Encik Maarupuddin Jamaluddin
ASST GENERAL MANAGER – EAST COAST

Dr. James Tee Kim Siong
ASST GENERAL MANAGER – SMC SECRETARIAT

Mr Henry Tan Chin Ko
ASST GENERAL MANAGER – TASK FORCE

Mdm Han Chon Mee
ASST GENERAL MANAGER – TASK FORCE

Mdm Elaine Kok Yoke Fong
ASST GENERAL MANAGER – UNDERWRITING

Mr Lee Suan Siew
ASST GENERAL MANAGER – UNDERWRITING SPECIAL TEAM

Mr John Tan Ban Hee
ASST GENERAL MANAGER – UNDERWRITING SPECIAL TEAM



DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2004.

PRINCIPAL ACTIVITY

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

RESULTS

	RM'000
Net profit for the year	<u>53,652</u>

DIVIDENDS

Since the end of the previous financial year, the Company paid a final dividend of approximately 48.6% less tax totalling RM70 million in respect of financial year ended 30 June 2003 on 29 October 2003.

The final dividend recommended by the Directors in respect of financial year ended 30 June 2004 of approximately 52.08% less tax totalling RM75 million will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements do not reflect this proposed final dividend, which will be accounted for in shareholders' equity as an adjustment of retained profits during the financial year ending 30 June 2005 upon shareholders' approval at the forthcoming Annual General Meeting.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

PROVISION FOR OUTSTANDING CLAIMS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported (IBNR) claims.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate provision had been made for doubtful debts.

At the date of this report, the Directors of the Company are not aware of any circumstances that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent.



CURRENT ASSETS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their values as shown in the financial statements of the Company, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors, the results of the operations of the Company for the financial year ended 30 June 2004 have not been substantially affected by any item, transaction or event of a material and unusual nature except for the impairment loss on goodwill and the higher IBNR charge as set out in Notes 20 and 19, respectively.

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



ISSUE OF SHARES

There were no changes in the issued and paid-up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take-up unissued shares of the Company during the year.

STATEMENT ON CORPORATE GOVERNANCE AND INTERNAL CONTROLS

i) Board responsibilities

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Insurance Act 1996 ("the Act"), Insurance Regulations 1996 ("the Regulations"), Companies Act, 1965, BNM Guidelines on Duties and Responsibilities of Directors and Chief Executives of Insurers ("JPI/GPI 1") and Prudential Framework of Corporate Governance for Insurers ("JPI/GPI 25") and other directives, in addition to adopting other best practices on corporate governance.

The responsibilities of the Board include setting the strategic direction of the Company, monitoring performance goals, formalising documentation on matters specifically reserved for its decision and ensuring that the Company's internal controls and reporting procedures are adequate, effective and ethical. The Board receives regular reports and updates on key aspects of the Company's operations, including changes in industry, economic and legislative environment that effect the Company.

During the financial year, the Board has held meeting in 7 occasions where it deliberated upon and considered a variety of matters including the company's financial results, major investments and strategic decisions, the business direction of the Company and corporate governance matters.

The Board comprises five non-executive Directors and one executive Director, ensuring that issues are considered with independence and objectivity.

ii) Management accountability

The Company has an organisation structure that is appropriately documented and clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. None of the Directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Sections 54 and 55 of the Act.



iii) Corporate independence

All material related party transactions have been disclosed in Note 25 to the financial statements.

iv) Internal controls and operational risk management

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which cover all levels of personnel and business processes to ensure that the Company's operations are run in an effective and efficient manner as well as safeguard the assets of the Company and stakeholders' interest. This process is supported by the maintenance of a reliable information system that covers all significant activities. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner.

v) Internal audit

The internal audit function reports directly to the Audit Committee and its findings and recommendations are communicated to the Board. Internal audit reports are tabled before the Audit Committee usually within one month of the completion of the final report.

vi) Audit committee

The Company's financial reporting and internal control systems is overseen by the Audit Committee, which comprises three non-executive Directors. The Audit Committee's role is to provide a direct link between the Board and the internal and external audit functions of the Company. The terms of business covered by the Audit Committee is governed by a charter approved by the Board, which includes the review of financial information provided to shareholders and BNM to ensure compliance with the Act, Regulations, BNM guidelines, the Companies Act, 1965 and other regulations.

vii) Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

viii) Financial reporting

The Directors are responsible for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with applicable approved accounting standards in Malaysia.

**DIRECTORS AND THEIR INTERESTS IN SHARES**

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

Datuk Kua Sian Kooi

Dato' Low Heong Chow @ Loh Heong Chow

Dato' Quah Teong Moo (appointed on 26.4.2004)

Haji Abdul Samad bin Haji Salleh

Yuen Choong Lai

Ali Riza bin Haji Abdul Samad (also the alternate to Haji Abdul Samad bin Haji Salleh)

The holdings and deemed holdings in the ordinary shares of the Company of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1 each			
	At 1.7.2003	Bought	Sold	At 30.6.2004
Shareholdings in which a Director has direct interest				
Interest of Datuk Kua Sian Kooi in:				
Company	27	–	–	27
Holding Company	10,162,572	–	–	10,162,572
Shareholdings in which a Director has indirect interest				
Interest of Datuk Kua Sian Kooi in:				
Company	199,999,901	–	–	199,999,901

None of the other Directors holding office at the end of the financial year held or dealt in the shares of the Company at any time during the financial year.

Haji Abdul Samad bin Haji Salleh, being over seventy years of age, retires in accordance with Section 129(2) of the Companies Act, 1965.



DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 20 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for those disclosed in Note 25 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

HOLDING AND ULTIMATE HOLDING COMPANY

The Directors regard Kurnia Damai Sdn. Bhd., a company incorporated in Malaysia, as the holding and ultimate holding company of the Company.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

Datuk Kua Sian Kooi

Dato' Low Heong Chow @ Loh Heong Chow

Petaling Jaya,

Date: 13 October 2004



STATEMENT BY DIRECTORS

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

We, Datuk Kua Sian Kooi and Dato' Low Heong Chow @ Loh Heong Chow, being two Directors of Kurnia Insurans (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the financial statements of the Company set out on pages 12 to 38 are properly drawn up to give a true and fair view of the state of affairs of the Company as at 30 June 2004 and of the results and cash flows for the financial year then ended, and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

Signed in accordance with a resolution of the Directors:

Datuk Kua Sian Kooi

Dato' Low Heong Chow @ Loh Heong Chow

Petaling Jaya,

Date: 13 October 2004



STATUTORY DECLARATION

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

I, San Chee Kit, the officer primarily responsible for the financial management of Kurnia Insurans (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 12 to 38 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 13 October 2004.

San Chee Kit

Before me:

Barathan A/L Sinniah @ Chinniah AMN, PJK



REPORT OF THE AUDITORS

TO THE MEMBERS OF KURNIA INSURANS (MALAYSIA) BERHAD

We have audited the financial statements set out on pages 12 to 38. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Company at 30 June 2004 and its results and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

KPMG

Firm Number: AF 0758

Chartered Accountants

Khaw Hock Hoe

Partner

Approval Number: 2229/04/06(J)

Kuala Lumpur,

Date: 13 October 2004



BALANCE SHEET

AT 30 JUNE 2004

	Note	2004 RM'000	2003 RM'000
Assets			
Property and equipment	3	241,394	245,437
Goodwill	4	–	31,104
Investments	5	1,281,564	1,015,802
Loans (secured)	6	19,525	15,923
Receivables	7	79,515	193,234
Tax recoverable		10,136	6,042
Cash and cash equivalents	8	34,336	19,025
Total assets		1,666,470	1,526,567
Liabilities			
Provision for outstanding claims	9	749,592	647,826
Payables	10	63,857	57,874
Provision for taxation		–	16,942
Retirement benefits	11	8,040	6,836
Deferred tax liability	12	5,730	7,121
Total liabilities		827,219	736,599
Insurance reserves			
Unearned premium reserve	13	426,488	360,857
Shareholders' equity			
Share capital	14	200,000	200,000
Reserves	15	212,763	229,111
		412,763	429,111
Total liabilities, insurance reserves and shareholders' equity		1,666,470	1,526,567

The above balance sheet statement is to be read in conjunction with the notes to the financial statements on pages 18 to 38.



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2004

		Distributable		
	Note	Share capital RM'000	Retained profits RM'000	Total RM'000
At 1 July 2002		200,000	181,850	381,850
Net profit for the year		–	117,261	117,261
Dividend paid	23	–	(70,000)	(70,000)
At 30 June 2003		200,000	229,111	429,111
Net profit for the year		–	53,652	53,652
Dividend paid	23	–	(70,000)	(70,000)
At 30 June 2004		200,000	212,763	412,763
		Note 14	Note 15	

The above statement of changes in equity is to be read in conjunction with the notes to the financial statements on pages 18 to 38.



INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 RM'000	2003 RM'000
Operating revenue	16	<u>1,110,338</u>	<u>995,339</u>
Surplus transferred from Insurance Revenue account		120,280	166,167
Amortisation of goodwill	20	–	(1,403)
Impairment loss on goodwill	20	<u>(31,104)</u>	<u>–</u>
Profit from operations before taxation		89,176	164,764
Tax expense	17	<u>(35,524)</u>	<u>(47,503)</u>
Net profit for the year		<u>53,652</u>	<u>117,261</u>
Basic earnings per ordinary share (sen)	18	<u>27</u>	<u>59</u>

The above income statement is to be read in conjunction with the notes to the financial statements on pages 18 to 38.



GENERAL INSURANCE REVENUE ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2004

	Note	Fire		Motor		Marine Aviation & Transit		Miscellaneous		Total	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium	16	22,194	16,932	960,317	871,580	8,864	10,579	64,916	52,406	1,056,291	951,497
Less: Reinsurance		(9,363)	(6,238)	(57,981)	(61,922)	(3,184)	(4,921)	(21,994)	(14,221)	(92,522)	(87,302)
Net premium		12,831	10,694	902,336	809,658	5,680	5,658	42,922	38,185	963,769	864,195
(Increase)/decrease in unearned premium reserves	13	(1,424)	(230)	(60,950)	(23,424)	258	(666)	(3,515)	(3,020)	(65,631)	(27,340)
Earned premium		11,407	10,464	841,386	786,234	5,938	4,992	39,407	35,165	898,138	836,855
Net claims incurred	19	(5,904)	(5,062)	(586,056)	(459,997)	(4,804)	(2,319)	(14,100)	(12,940)	(610,864)	(480,318)
Net commission		(1,062)	(1,080)	(84,895)	(85,037)	(694)	(454)	(7,301)	(6,863)	(93,952)	(93,434)
		(6,966)	(6,142)	(670,951)	(545,034)	(5,498)	(2,773)	(21,401)	(19,803)	(704,816)	(573,752)
Underwriting surplus before management expenses		4,441	4,322	170,435	241,200	440	2,219	18,006	15,362	193,322	263,103
Management expenses	20									(162,374)	(159,516)
Underwriting surplus										30,948	103,587
Investment income	21									54,047	43,842
Other income-net	22									35,285	18,738
Transfer to income statement										120,280	166,167

The above general insurance account is to be read in conjunction with the notes to the financial statements on pages 18 to 38.



CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2004

	2004 RM'000	2003 RM'000
Cash flow from operating activities		
Profit before tax	89,176	164,764
Adjustments for:		
Depreciation	15,506	14,962
Increase in reserve for unexpired risks	65,631	27,340
Goodwill amortised	–	1,403
Investment income	(52,510)	(40,615)
Profit on disposal of investments	(28,049)	(22,679)
Gain on disposal of equipment	(88)	(148)
Equipment written off	1,023	3
(Write back of)/ Provision for diminution in value of investments	(6,202)	5,654
Allowance for doubtful debts	3,871	16,447
Provision for retirement benefits	1,466	1,316
Accretion of discounts, net of amortisation of premiums	(1,537)	(3,227)
Impairment loss on goodwill	31,104	–
Profit from operations before changes in operating assets and liabilities	119,391	165,220
Purchase of investments	(350,045)	(136,427)
Proceeds from redemption and disposal of investments	357,246	156,431
Increase in loans	(3,602)	(3,060)
Increase in fixed and call deposits	(103,032)	(105,128)
Increase in receivables	(23,586)	(17,648)
Increase in outstanding claims	101,766	43,982
Increase/(Decrease) in payables	5,983	(1,835)
	104,121	101,535
Tax paid	(63,993)	(68,193)
Tax credit refunded	6,042	–
Investment income received		
Dividend	14,759	6,743
Interest	37,042	34,570
Retirement benefits paid	(262)	–
Net cash generated from operating activities	97,709	74,655



CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2004

	2004 RM'000	2003 RM'000
Cash flow from investing activities		
Proceeds from disposal of equipment	96	153
Purchase of equipment	<u>(12,494)</u>	<u>(14,774)</u>
Net cash used in investing activities	<u>(12,398)</u>	<u>(14,621)</u>
Cash flow from financing activity		
Shareholders dividend paid	<u>(70,000)</u>	<u>(70,000)</u>
Net cash used in financing activity	<u>(70,000)</u>	<u>(70,000)</u>
Net increase/(decrease) in cash and cash equivalents	15,311	(9,966)
Cash and cash equivalents at beginning of year	<u>19,025</u>	<u>28,991</u>
Cash and cash equivalents at end of year	<u>34,336</u>	<u>19,025</u>
Cash and cash equivalents comprise:		
Cash and bank balances (Note 8)	<u>34,336</u>	<u>19,025</u>

The above cash flow statement is to be read in conjunction with the notes to the financial statements on pages 18 to 38.



NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

The number of employees of the Company (excluding Executive Directors) as at the end of the financial year was 1,798 (2003 – 1,697).

The Company is a public limited company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at:

Menara Kurnia
Block B4, Pusat Dagang Setia Jaya
Leisure Commerce Square
No. 9, Jalan PJS 8/9
46150 Petaling Jaya

The holding and ultimate holding company is Kurnia Damai Sdn. Bhd., a company incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 13 October 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are adopted by the Company and are consistent with those adopted in previous years except for the adoption of MASB 29, Employee Benefits which has been adopted retrospectively.

Apart from the new policies and extended disclosures where required by this standard, there is no material effect on the financial statements.

(a) Basis of accounting

The financial statements of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with applicable approved accounting standards in Malaysia, the provisions of the Companies Act 1965, the Insurance Act 1996, Insurance Regulations 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia (BNM) in all material aspects.

(b) Property and equipment

Freehold land and capital work-in-progress are stated at cost. All other property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Depreciation

Freehold land and capital work-in-progress are not amortised. Leasehold land is amortised in equal instalments over the remaining period of the respective leases which ranges from forty-nine to ninety-three years while buildings are depreciated on a straight line basis over the shorter of 50 years or the lease period. The straight line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Freehold buildings	2%
Office improvements	10% – 33 $\frac{1}{3}$ %
Furniture and fittings	10%
Office equipment and computers	10% – 20%
Motor vehicles	20%

(d) Goodwill

Goodwill arising from the acquisition of an insurance business represents the excess of the cost of the acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Goodwill is amortised from the date of initial recognition over its estimated useful life of not more than 25 years.

(e) Investments

Investments in Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Zero Coupon Bonds, Islamic Government Guaranteed Bonds and other unquoted unsecured bonds that carry a minimum rating of BBB or P3 by rating agencies established in Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums and accretion of discounts to maturities. Premiums/discounts are calculated on a straight line basis over the period from the date of acquisition to the date of maturity of the securities. The amortisation of premiums and accretion of discounts are recognised in the revenue account.

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 diminution in value of a particular investment is not regarded as temporary, provision is made against the value of that quoted investment.

Diminution in value of a particular quoted investment is not regarded as temporary when the market value has been less than 80% of its cost at all times during the preceding 24 months, by writing down the cost of that quoted investment to the average median price for each month during that 24 month period.

All other unquoted investments are stated at the lower of cost and net realisable value.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment property

Freehold land is stated at cost and includes related and incidental expenditure incurred less accumulated impairment losses, if any. Freehold land is not depreciated.

(g) Receivables

Receivables are stated at cost less allowance for doubtful debts.

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

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances excluding fixed and call deposits.

(i) Impairment

The carrying amount of the Company's assets, other than tax recoverable and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement/ revenue account.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement/revenue account.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Employee benefits

(i) Short term employee benefits

Wages, salaries and bonuses 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 increases their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when such absences occur.

(ii) Defined contribution plan

Obligations for contributions to defined contribution plan are recognised as an expense in the revenue account as incurred.

(iii) Defined benefit plan

The Company's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of plan assets, if any, is deducted. The discount rate is the market yield at the balance sheet date on high quality corporate bonds or government bonds. The calculation is performed by an actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the revenue account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the revenue account.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, if any, that portion is recognised in the revenue account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(k) Liabilities

Payables are stated at cost.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) General insurance underwriting results

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

Premium income

Premium is recognised in a financial year in respect of risks assumed during that particular financial year. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Inward Treaty Business

Underwriting results relating to reinsurance inward treaty transactions, regardless of the underwriting years to which they pertain, are included in current operations to the extent that such transactions are reported by the brokers and reinsurers in their statement of accounts received as at the end of the financial year.

Unearned Premium Reserve

The Unearned Premium Reserve (UPR) represent the portion of the net premiums of insurance policies written less deductible acquisition costs that relate to the unexpired period of the policies at the end of the financial year.

The method used to calculate UPR is as follows:

- (i) 25% method for marine and aviation cargo business.
- (ii) 1/24th method for all other classes of Malaysian general policies business.

Provision for claims

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

Provision is also made for the cost of claims, together with related expenses in respect of those incurred but not reported at balance sheet date, using a mathematical method of estimation.

Acquisition costs

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



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Other revenue recognition

Interest income on loans and other interest-bearing investments 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 income is recognised on the receipt basis until all arrears have been paid.

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

Dividend income represents gross dividends from quoted and unquoted investments and is recognised when the right to receive payment is established.

(n) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(o) Foreign currency

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the revenue account.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

100 BAHT: RM9.11 (2003 – RM8.85)

(p) Operating lease payments

Payments made under operating leases are recognised in the revenue account on a straight line basis over the term of the leases.



3. PROPERTY AND EQUIPMENT

Cost	Freehold	Leasehold	Freehold	Leasehold	Office	Furniture	Office	Motor	Capital	Total
	land	land	buildings	buildings	improvements	and fittings	equipment and computers	vehicles	work-in-progress	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2003	15,385	33,336	34,059	99,529	13,253	38,751	58,653	14,223	56	307,245
Additions	85	96	176	516	191	3,798	6,562	20	1,050	12,494
Disposals	-	-	-	-	-	-	-	(450)	-	(450)
Written off	-	-	-	-	-	(1,710)	(6)	(50)	-	(1,766)
Reclassification	-	-	1,770	(1,770)	278	(278)	-	-	-	-
At 30 June 2004	15,470	33,432	36,005	98,275	13,722	40,561	65,209	13,743	1,106	317,523
Accumulated depreciation										
At 1 July 2003	-	350	3,611	3,922	5,389	12,113	26,684	9,739	-	61,808
Charge for the year	-	395	708	1,925	1,290	4,075	5,415	1,698	-	15,506
Disposal	-	-	-	-	-	-	-	(442)	-	(442)
Written off	-	-	-	-	-	(717)	(3)	(23)	-	(743)
Reclassification	-	-	195	(195)	44	(44)	-	-	-	-
At 30 June 2004	-	745	4,514	5,652	6,723	15,427	32,096	10,972	-	76,129
Net book value										
At 30 June 2004	15,470	32,687	31,491	92,623	6,999	25,134	33,113	2,771	1,106	241,394
At 30 June 2003	15,385	32,986	30,448	95,607	7,864	26,638	31,969	4,484	56	245,437
Depreciation charge for the year ended 30 June 2003										
	-	350	681	1,940	1,358	3,727	4,940	1,966	-	14,962
Cost of fully depreciated assets which are still in use										
- 2004	-	-	-	-	697	291	9,097	6,452	-	16,537
- 2003	-	-	-	-	611	195	8,741	4,535	-	14,082



4. GOODWILL

	2004 RM'000	2003 RM'000
Cost		
At 1 July/30 June	<u>35,554</u>	<u>35,554</u>
Accumulated amortization/impairment losses		
At 1 July 2003/2002	4,450	3,047
Amortisation charge for the year	–	1,403
Impairment loss	<u>31,104</u>	<u>–</u>
At 30 June	<u>35,554</u>	<u>4,450</u>
Net book value		
At 30 June	<u>–</u>	<u>31,104</u>

5. INVESTMENTS

	2004		2003	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investment property, at cost				
Freehold land	<u>7,500</u>		<u>7,500</u>	
Malaysian Government Securities	51,241		56,155	
Amortisation of premiums				
net of accretion of discounts	<u>(2,022)</u>		<u>(1,897)</u>	
	<u>49,219</u>		<u>54,258</u>	
Cagamas Bonds	165,169		30,033	
Amortisation of premiums				
net of accretion of discounts	<u>(8)</u>		<u>(22)</u>	
	<u>165,161</u>		<u>30,011</u>	
Zero Coupon Government Guaranteed Bonds	14,216		61,648	
Accretion of discounts	<u>3,180</u>		<u>11,289</u>	
	<u>17,396</u>		<u>72,937</u>	
Zero Coupon Bonds	–		17,989	
Accretion of discounts	<u>–</u>		<u>1,782</u>	
	<u>–</u>		<u>19,771</u>	

**5. INVESTMENTS (continued)**

	2004		2003	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Islamic Government Guaranteed Bonds	–		38,224	
Amortisation of premiums	–		(2,420)	
	–		35,804	
Quoted in Malaysia:				
Shares of corporations	241,799		120,613	
Provision for diminution in value	(13)		(5,407)	
	241,786	256,467	115,206	120,089
Unit trusts	17,012		16,479	
Provision for diminution in value	(1,209)		(2,018)	
	15,803	15,803	14,461	14,461
Unquoted in Malaysia:				
Secured Long Term Bonds	15,504		15,504	
Amortisation of premiums net of accretion of discounts	(272)		(188)	
	15,232		15,316	
Unsecured Long Term Bonds	105,156		105,156	
Amortisation of premiums net of accretion of discounts	(1,510)		(1,113)	
	103,646		104,043	
Secured short term loan	30,164		15,300	
Shares of corporation	1,430		–	
Fixed and call deposits with:				
Licensed banks	203,632		122,000	
Licensed finance companies	293,412		289,627	
Other financial institutions	137,183		119,568	
	634,227		531,195	
Total Investments	1,281,564		1,015,802	
Investments maturing after twelve months:				
Malaysian Government Securities	43,242		49,464	
Cagamas Bonds	140,161		24,997	
Zero Coupon Government Guaranteed Bonds	17,396		12,574	
Unquoted secured long term bonds	15,232		15,316	
Unquoted unsecured long term bonds	83,652		104,043	
Unquoted secured short term loan	24,164		–	



6. LOANS (SECURED)

	2004 RM'000	2003 RM'000
Mortgage loans	18,592	14,296
Allowance for doubtful debts	(100)	–
	<u>18,492</u>	<u>14,296</u>
Other loans	1,127	1,799
Interest-in-suspense	(94)	(172)
	<u>1,033</u>	<u>1,627</u>
	<u>19,525</u>	<u>15,923</u>
Receivable after twelve months	<u>10,177</u>	<u>9,521</u>

7. RECEIVABLES

	2004 RM'000	2003 RM'000
Trade receivables		
Outstanding premium including agents/brokers and co-insurers balances	100,987	82,005
Allowance for doubtful debts	(45,244)	(42,978)
	<u>55,743</u>	<u>39,027</u>
Amount due from reinsurers/ceding companies	21,920	18,999
Allowance for doubtful debts	(16,784)	(15,948)
	<u>5,136</u>	<u>3,051</u>
Other receivables		
Other receivables, deposits and prepayments	18,436	150,956
Loan stock of a statutory body	200	200
	<u>79,515</u>	<u>193,234</u>

Trade receivables

A total amount of RM669,000 (2003 – RM952,000) of bad debts was written off against the allowance for doubtful debts on outstanding premium including agents/brokers balances and amount due from reinsurers/ceding companies and co-insurers.

Included in amount due from reinsurers/ceding companies balances are unreconciled differences of RM625,000 (2003 – Nil) which constitute more than 2% of the carrying amount.

Other receivables

Included in other receivables of the previous year is an amount of RM134,143,000 relating to proceeds receivable from the disposal of certain quoted investments and was fully received during the financial year.

Included in other receivables is a non-trade balance due from a company with a common Director amounting to Nil (2003 – RM1,141,000). The balance was interest free and had no fixed terms of repayment.

**8. CASH AND CASH EQUIVALENTS**

	2004 RM'000	2003 RM'000
Cash and bank balances	<u>34,336</u>	<u>19,025</u>

9. PROVISION FOR OUTSTANDING CLAIMS

	2004 RM'000	2003 RM'000
Provision for outstanding claims	801,427	702,708
Less: Recoverable from reinsurers thereon	<u>(51,835)</u>	<u>(54,882)</u>
Net outstanding claims	<u>749,592</u>	<u>647,826</u>

Included in the provision for outstanding claims at 30 June 2004 is an amount of RM470.6 million (2003 – RM303.2 million) in respect of net provision for incurred but not reported (IBNR) claims as determined by an independent actuary in a report dated 4 October 2004.

10. PAYABLES

	2004 RM'000	2003 RM'000
Trade payables		
Amount due to reinsurers/ceding companies and co-insurers	24,518	13,910
Amount due to agents/brokers and insureds	<u>2,594</u>	<u>5,095</u>
	27,112	19,005
Other payables		
Other payables and accrued expenses	<u>36,745</u>	<u>38,869</u>
	<u>63,857</u>	<u>57,874</u>

Trade payables

Included in reinsurers/ceding companies and co-insurers balances are unreconciled differences of RM2,857,000 (2003 – RM3,339,000) which constitute more than 2% of the carrying amount.



11. RETIREMENT BENEFITS

The movements in the net liability recognised in the balance sheet are as follows:

	2004 RM'000	2003 RM'000
At 1 July 2003/2002	6,836	5,520
Benefits paid	(262)	–
Expenses recognised in the revenue account (Note 20)	1,466	1,316
At 30 June	<u>8,040</u>	<u>6,836</u>

The liability for the unfunded defined benefit obligation recognised under the balance sheet is analysed as follows:

	2004 RM'000	2003 RM'000
Present value of unfunded obligations	<u>8,040</u>	<u>6,836</u>
Payable after twelve months	<u>7,704</u>	<u>6,836</u>

The expenses recognised in the revenue account under the management expenses caption are analysed as follows:

	2004 RM'000	2003 RM'000
Current service cost	927	875
Interest cost	539	441
	<u>1,466</u>	<u>1,316</u>

Principal actuarial assumptions used at the balance sheet date:

	2004	2003
Discount rate	8%	8%
Future salary increases	<u>6%</u>	<u>6%</u>

Under the Scheme, eligible employee who have completed a minimum of 10 years of service is entitled to retirement benefits of one month of the last drawn salary for each completed year of service upon the retirement age of 56. Employees who leave before the attainment of the retirement age, are not entitled to the benefit.

**12. DEFERRED TAX**

The amount, determined after appropriate offsetting, are as follows:

	2004 RM'000	2003 RM'000
Deferred tax liability	<u>5,730</u>	<u>7,121</u>

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	2004 RM'000	2003 RM'000
Property and equipment – capital allowances	8,558	9,105
Investments	(519)	2
Unearned premium reserve	7	(72)
Retirement benefits	(2,251)	(1,914)
Other deductible temporary differences	(65)	–
	<u>5,730</u>	<u>7,121</u>

13. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscellaneous RM'000	Total RM'000
2004					
At 1 July 2003	4,130	341,164	1,674	13,889	360,857
Increase/(Decrease) in unearned premium reserve	1,424	60,950	(258)	3,515	65,631
At 30 June	<u>5,554</u>	<u>402,114</u>	<u>1,416</u>	<u>17,404</u>	<u>426,488</u>
2003					
At 1 July 2002	3,900	317,740	1,008	10,869	333,517
Increase in unearned premium reserve	230	23,424	666	3,020	27,340
At 30 June	<u>4,130</u>	<u>341,164</u>	<u>1,674</u>	<u>13,889</u>	<u>360,857</u>



14. SHARE CAPITAL

	No. of shares '000	2004 RM'000	No. of shares '000	2003 RM'000
Authorised:				
Ordinary shares of RM1.00 each	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
Ordinary shares of RM1.00 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

15. RESERVES

Subject to agreement with the Inland Revenue Board, the Company has sufficient tax exempt income and tax credit under Section 108 of the Income Tax Act, 1967 to frank in full the payment of dividends from its distributable reserves as at 30 June 2004.

16. OPERATING REVENUE

	2004 RM'000	2003 RM'000
Gross premium	1,056,291	951,497
Investment income (Note 21)	<u>54,047</u>	<u>43,842</u>
	<u>1,110,338</u>	<u>995,339</u>

17. TAX EXPENSE

	2004 RM'000	2003 RM'000
Current tax expense		
Malaysian – current	36,915	50,883
Deferred tax		
Reversal of temporary differences	(1,581)	(771)
Under/(Over) provision in prior year	<u>190</u>	<u>(2,609)</u>
	<u>35,524</u>	<u>47,503</u>

Reconciliation of effective tax rate

	2004		2003	
	%	RM'000	%	RM'000
Profit before taxation		<u>89,176</u>		<u>164,764</u>
Income tax using Malaysian tax rates	28	24,969	28	46,134
Non-deductible expenses	13	11,617	2	4,066
Tax exempt income	(1)	(1,252)	–	(150)
Other items	–	–	–	62
	<u>40</u>	<u>35,334</u>	<u>30</u>	<u>50,112</u>
Under/(Over) provision in prior year	–	<u>190</u>	(1)	<u>(2,609)</u>
Tax expense	<u>40</u>	<u>35,524</u>	<u>29</u>	<u>47,503</u>

**18. EARNINGS PER SHARE**

Earnings per ordinary share is calculated based on the profit for the year after tax of RM53,652,000 (2003 – RM117,261,000) divided by the number of ordinary shares in issue of 200,000,000 (2003 – 200,000,000) during the year.

19. NET CLAIMS INCURRED

		Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscellaneous RM'000	Total RM'000
2004						
Gross claims paid less salvage		6,675	527,092	7,095	21,361	562,223
Reinsurances recoveries		(2,273)	(42,487)	(1,987)	(6,378)	(53,125)
Net claims paid	(a)	4,402	484,605	5,108	14,983	509,098
Net outstanding claims:						
At 30 June 2004	(b)	6,066	719,174	5,239	19,113	749,592
At 1 July 2003	(c)	4,564	617,723	5,543	19,996	647,826
Net claims incurred	(a+b-c)	5,904	586,056	4,804	14,100	610,864
2003						
Gross claims paid less salvage		7,513	450,470	4,301	18,103	480,387
Reinsurances recoveries		(2,955)	(34,575)	(2,128)	(4,393)	(44,051)
Net claims paid	(a)	4,558	415,895	2,173	13,710	436,336
Net outstanding claims:						
At 30 June 2003	(b)	4,564	617,723	5,543	19,996	647,826
At 1 July 2002	(c)	4,060	573,621	5,397	20,766	603,844
Net claims incurred	(a+b-c)	5,062	459,997	2,319	12,940	480,318

Included in the net claims incurred for financial years ended 30 June 2004 and 2003 is the IBNR charge of approximately RM167 million and RM45 million respectively.

The 2004 IBNR charge included the impact of additional provisions made for previous years of approximately RM87 million resulting from the changes in the projected numbers of cases made by the independent actuary based on actual development of claims pattern that became more obvious during the financial year.



20. MANAGEMENT EXPENSES

	2004 RM'000	2003 RM'000
Insurance fund		
Salaries and related expenses	80,824	71,366
Directors' remuneration		
Fees	804	204
Salary and other remuneration	2,070	2,227
Auditors' remuneration	132	132
Rental of offices and premises	980	1,147
Depreciation of property and equipment	15,506	14,962
Allowance for doubtful debts	3,871	16,447
IGSF levies	2,633	2,304
Advertisement expenses	19,542	14,890
Bank charges	9,609	8,069
Other expenses	26,403	27,768
	<u>162,374</u>	<u>159,516</u>
Non-insurance fund		
Goodwill amortised (Note 4)	–	1,403
Impairment loss on goodwill (Note 4)	31,104	–
	<u>31,104</u>	<u>–</u>

The estimated cash value of benefits-in-kind received by the Directors of the Company amounted to RM54,000 (2003 – RM64,000).

The staff costs of the Company for the financial year amounts to RM82,137,000 (2003 – RM72,576,000). Included in staff costs is defined contribution plan and retirement benefit expenses amounting to RM7,575,000 (2003 – RM6,960,000) and RM1,466,000 (2003 – RM1,316,000) respectively.

Directors' and CEO's Remuneration

	2004 RM'000	2003 RM'000
Insurance fund		
Executive Directors		
Salaries	614	540
Bonus	540	540
Benefits-in-kind	21	–
Other Remuneration	138	130
	<u>1,313</u>	<u>1,210</u>
Non-executive Directors		
Fees	804	204
Other Remuneration	757	1,017
	<u>1,561</u>	<u>1,221</u>
Total Directors' Remuneration	<u>2,874</u>	<u>2,431</u>

The remuneration, including benefits-in-kind, attributable to the CEO of the insurer during the year amounted to RM1,295,384 (2003: RM1,254,493).

**21. INVESTMENT INCOME**

	2004 RM'000	2003 RM'000
Insurance fund		
Interest income from:		
Malaysian Government Securities	3,479	4,258
Cagamas Bonds	3,083	1,813
Islamic Government Guaranteed Bonds	2,231	2,678
Unquoted Long Term Bonds	8,607	8,606
Unquoted Short term loans	2,521	2,310
Fixed and call deposits	17,830	14,207
Gross dividends from:		
Quoted shares in Malaysia	13,926	6,743
Quoted unit trusts in Malaysia	759	–
Unquoted shares in Malaysia	74	–
Accretion of discounts, net of amortisation of premiums	1,537	3,227
	<u>54,047</u>	<u>43,842</u>

22. OTHER INCOME – NET

	2004 RM'000	2003 RM'000
Insurance fund		
Other income		
Other interest income	830	707
Sundry income	1,139	861
Profit on sale of investments	28,049	22,679
Gain on disposal of equipment	88	148
Write back of provision for diminution in value of investments in quoted shares and unit trusts	6,202	–
	<u>(a) 36,308</u>	<u>24,395</u>
Other expenditure		
Equipment written off	1,023	3
Provision for diminution in value of investments in quoted shares and unit trusts	–	5,654
	<u>(b) 1,023</u>	<u>5,657</u>
Other income – net	<u>(a-b) 35,285</u>	<u>18,738</u>



23. DIVIDENDS

	2004 RM'000	2003 RM'000
Dividend paid:		
Final dividend of 48.6% less tax for financial year 2003 (2003 – 48.6% less tax for financial year 2002)	<u>70,000</u>	<u>70,000</u>

The proposed final dividend of 52.08% less tax will be subject to shareholders' approval at the forthcoming Annual General Meeting. The financial statements for the current year do not reflect the proposed dividends. Such dividends if approved by the shareholders, will be excluded from shareholders' equity as an appropriation of retained profits during the financial year ending 30 June 2005.

24. CAPITAL COMMITMENTS

Capital expenditure approved by the Directors but not provided for in the financial statements as at 30 June amounted to approximately:

	2004 RM'000	2003 RM'000
Property and equipment		
Authorised but not contracted for	–	588
Authorised and contracted for	<u>2,736</u>	<u>3,235</u>
	<u>2,736</u>	<u>3,823</u>

25. RELATED PARTIES

Controlling related party relationships are as follows:

- i) The holding and ultimate holding company as disclosed in Note 1.
- ii) A director and substantial shareholder of the Company, Datuk Kua Sian Kooi.

Transactions	2004 RM'000	2003 RM'000
Company in which Datuk Kua Sian Kooi and Dato' Quah Teong Moo, Directors, have interests:		
Kua Boon Chuan Realty Sdn. Bhd.		
Rental paid	150	210
Related company		
Kurnia Leisure Sdn. Bhd.		
Tour services paid	3,113	726
A company with common Directors		
Kurnia Insurance Thailand		
Reinsurance inwards premium receivable	<u>(115)</u>	<u>(150)</u>

These transactions have been entered into in the normal course of business and have been established under negotiated terms.



26. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Exposure to underwriting, credit, interest rate, liquidity and market risks arises in the normal course of the Company's business. The Board of Directors assumes overall responsibility for the Company's financial risk management and have established certain committees to address the risks on an ongoing basis.

Underwriting risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits and high standards applied to the security of reinsurers.

Credit risk

Credit risk represents the potential losses that may result due to the inability of the counterparties to insurance, reinsurance and investment transactions in meeting their contractual obligations.

The Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Investments are made based on appropriate evaluations, in accordance with Guidelines/Circular issued by BNM, whereby all bond investments must carry a minimum rating of BBB or P3 by rating agencies established in Malaysia.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Company is represented by the carrying amount of each financial asset.

Included in other receivables, deposits and prepayments of the Company is a balance due from a share broker in respect of proceeds from investments disposals that represents approximately Nil (2003 – 89%) of other receivables, deposits and prepayments as at balance sheet date.

Interest rate risk

The Company's earnings are affected by changes in market interest rates as the impact of such changes has an effect on interest income from deposit placements and fixed income securities. To mitigate the interest rate risks, the deposit placements are made with various financial institutions at varying maturity dates and rates.

Liquidity risk

Liquidity risk is the risk whereby the Company is unable to meet its obligations at a reasonable cost or at any time. The Company manages this risk by monitoring its daily and monthly projected and actual cash flows. It also holds a sufficient quantity of liquid investments that can be readily converted to cash.



26. FINANCIAL INSTRUMENTS (continued)

Market risk

The Company's investment portfolio is generally exposed to fluctuation in market prices. The risk is managed via setting diversification requirement and investment limits of each investee groups. Risk and returns are constantly monitored and reviewed by the Executive Committee.

Effective interest rates and repricing analysis

The following table provides information about financial assets showing the weighted average effective interest rate as at year end and the maturity/repricing structure, whichever is earlier, for each class of interest-bearing financial instruments in the balance sheet.

	← 2004 →					← 2003 →				
	Effective interest rate per annum %	Total RM'000	Within	1 – 5	After	Effective interest rate per annum %	Total RM'000	Within	1 – 5	After
			1 year RM'000	years RM'000	5 years RM'000			1 year RM'000	years RM'000	5 years RM'000
Financial assets										
Investments										
– Malaysian Government										
Securities	6.16	49,219	5,977	43,242	–	6.19	54,258	4,794	22,951	26,513
– Cagamas Bonds	3.89	165,161	25,000	140,161	–	5.40	30,011	5,014	24,997	–
– Zero Coupon Government										
Guaranteed Bonds	5.43	17,396	–	17,396	–	5.21	72,937	60,363	12,574	–
– Zero Coupon Bonds	–	–	–	–	–	3.99	19,771	19,771	–	–
– Islamic Government										
Guaranteed Bonds	–	–	–	–	–	4.61	35,804	35,804	–	–
– Unquoted secured										
Long Term Bonds	8.03	15,232	–	15,232	–	8.03	15,316	–	15,316	–
– Unquoted unsecured										
Long Term Bonds	6.64	103,646	19,994	62,266	21,386	6.64	104,043	–	82,448	21,595
– Unquoted secured										
short term loans	10.22	30,164	20,164	10,000	–	8.76	15,300	15,300	–	–
– Fixed & call deposits	2.86	634,227	634,227	–	–	3.00	531,195	531,195	–	–
Loans (secured)										
– Mortgage loans	4.44	18,492	8,870	2,656	6,966	4.36	14,296	5,808	1,838	6,650
Total financial assets		1,033,537	714,232	290,953	28,352		892,931	678,049	160,124	54,758

**26. FINANCIAL INSTRUMENTS (continued)****Fair value*****Recognised financial instruments***

The carrying amounts of financial instruments in respect of cash and bank balances, receivables and payables on the Balance Sheet approximate their fair values due to the relatively short term nature of these financial instruments.

The Company's basis of estimation of fair values for other financial instruments is as follows:

- The fair values of Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Zero Coupon Bonds and Islamic Government Guaranteed Bonds are based on the indicative market prices;
- The fair values of quoted shares of corporations and unit trusts are based on quoted market price as at balance sheet date;
- The fair values of unquoted secured and unsecured Long Term Bonds are based on the indicative market yields obtained from fund managers;
- The carrying amount of secured short term loan and fixed and call deposits with a maturity year less than one year are assumed to approximate their fair values; and
- The mortgage loans with variable rates are considered to approximate their fair values. For mortgage and other loans with fixed rates, fair values are derived by discounting future cash flows, using interest rates for similar instruments, where applicable, taking into consideration the nature and contracted terms of these loans. Based on management's assessment as at 30 June 2004, the estimated fair values of the loans approximate their carrying values.

The fair values of the financial assets carried on the balance sheet as at 30 June are shown below:

	2004		2003	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Investments				
– Malaysian Government Securities	49,219	52,674	54,258	60,531
– Cagamas Bonds	165,161	165,163	30,011	30,789
– Zero Coupon Government Guaranteed Bonds	17,396	17,165	72,937	74,682
– Zero Coupon Bonds	–	–	19,771	19,882
– Islamic Government Guaranteed Bonds	–	–	35,804	36,337
– Quoted shares of corporations	241,786	256,467	115,206	120,089
– Quoted unit trusts	15,803	15,803	14,461	14,461
– Unquoted secured Long Term Bonds	15,232	15,259	15,316	15,753
– Unquoted unsecured Long Term Bonds	103,646	103,817	104,043	114,638
– Unquoted secured short term loan	30,164	30,164	15,300	15,300
– Fixed and call deposits	634,227	634,227	531,195	531,195
Loans (secured)				
– Mortgage loans	18,492	18,492	14,296	14,296
– Other loans	1,033	1,033	1,627	1,627



BRANCH NETWORK

HEAD OFFICE

Menara Kurnia
9, Jalan PJS 8/9
46150 Petaling Jaya
Selangor Darul Ehsan
Tel : 78753333 Fax : 78759933
Website add : www.kurnia.com.my

BRANCHES OF KURNIA

ALOR SETAR

18, Leboh Raya Darul Aman
05100 Alor Setar, Kedah
Tel. : 04-7339888
Fax. : 04-7305888
BRANCH MANAGER : POH SENG HOOI

BATU PAHAT

12, 12A, 12B
Ground, 1st 2nd Floor
Jalan Maju Barat
83000 Batu Pahat, Johor
Tel. : 07-4326333
Fax. : 07-4323522
BRANCH MANAGER : LEE BOON CHAI

BUTTERWORTH

8, Jalan Todak 1
Bandar Sunway Seberang Jaya
13700 Seberang Jaya (Butterworth)
Seberang Perai, Penang
Tel. : 04-3973888
Fax. : 04-3978279
BRANCH MANAGER : KUA HOCK LAI

IPOH

16 & 18, Persiaran Greentown 6
Pusat Perdagangan Greentown
30450 Ipoh, Perak
Tel. : 05-2552846
Fax. : 05-2534885
BRANCH MANAGER : NEOH KOK TEONG

JOHOR BHARU

14-14B, Jalan Padi Satu
Bandar Baru Uda
81200 Johor Bharu, Johor
Tel. : 07-2383328
Fax. : 07-2383731
BRANCH MANAGER : MUKTHI BIN ABDULLAH

JOHOR JAYA

110, Jalan Ros Merah 2/17
Taman Johor Jaya
81100 Johor Bahru, Johor
Tel. : 07-3537233
Fax. : 07-3570233
BRANCH MANAGER : SIEH JOO SHUEN

KAJANG

31, Jalan Ria 1
Kawasan Perindustrian Ria
Off Jalan Semenyih
43000 Kajang, Selangor
Tel. : 03-87338118
Fax. : 03-87343737
BRANCH MANAGER : A SOCKANATHAN A/L
ALAGAPPAN

KANGAR

58, Jalan Penjara
Medan Syed Alwi
01000 Kangar, Perlis
Tel. : 04-9764226
Fax. : 04-9768914
BRANCH MANAGER : TEH TEIK CHEOW

KEPONG

4-G-4-3 Block B
Lot B2, Jalan Prima 5
Pusat Niaga Metro Prima
52100 Kepong, Kuala Lumpur
Tel. : 03 62578301
Fax. : 03 62578261
BRANCH MANAGER : THAM KIN YAP

KLANG

27, Jalan Tiara 3
Bandar Baru Klang
41150 Klang, Selangor
Tel. : 03-33428333
Fax. : 03-33449775
BRANCH MANAGER : GRACE QUAH
SEOK CHEN

KLUANG

8, Jalan Persiaran Yayasan
86000 Kluang, Johor
Tel. : 07-7733993
Fax. : 07-7722558
BRANCH MANAGER : LIONG TIM KUAN

KOTA BHARU

Wisma Kurnia
Lot 710 Jalan Tok Hakim
15000 Kota Bharu, Kelantan
Tel. : 09-7481033
Fax. : 09-7449633
BRANCH MANAGER : LEE YOOK UN



KOTA KINABALU

Level 8, Wisma Fook Loi
38, Jalan Gaya
88000 Kota Kinabalu, Sabah
Tel. : 088-232200
Fax.: 088-232204
BRANCH MANAGER : NG PICK YENG

KUALA TERENGGANU

26, Jalan Sultan Mahmud
20400 Kuala Terengganu
Terengganu
Tel. : 09-6246561
Fax.: 09-6246531
BRANCH MANAGER : AMINUDDIN
SUHARTO BIN DATO' HJ. ZAKARIA

KUANTAN

B-344, Jalan Berserah
25300 Kuantan, Pahang
Tel. : 09-5664527
Fax.: 09-5661164
BRANCH MANAGER : LEE GEOK CHEE

KUCHING

246 & 247
Jalan Datuk Wee Kheng Chiang
93450 Kuching, Sarawak
Tel. : 082-247288
Fax.: 082-250611
BRANCH MANAGER : CHONG CHUNG PING

MELAKA

162, Jalan Tmn Melaka Raya
75000 Melaka
Tel. : 06-2830928
Fax.: 06-2822707
BRANCH MANAGER : GARY MOK KONG YEW

MIRI

Lot 665, Jalan Permaisuri
98000 Miri, Sarawak
Tel. : 085-420102
Fax.: 085-420924
BRANCH MANAGER : SIM YU HIENG

PENANG

2F, Lorong Selamat
10400 Penang
Tel. : 04-2284473
Fax.: 04-2284478
BRANCH MANAGER : TAN MEOW KEONG

SEGAMAT

55, Jalan Genuang Kampung
85000 Segamat, Johor
Tel. : 07-9321299
Fax.: 07-9328551
BRANCH MANAGER : ANG TECK BOH

SELANGOR

Wisma Kurnia
149-151, Jalan Maharajalela
50150 Kuala Lumpur
Tel. : 03-21481500
Fax.: 03-21412446
BRANCH MANAGER : LOW ENG CHUAN

SEREMBAN

32, Beta Ria Business Centre
Jalan Durian Emas 4
Off Jalan Dato' Siamang Gagap
70100 Seremban, Negeri Sembilan
Tel. : 06-7570333
Fax.: 06-7672487
BRANCH MANAGER : GOAY PENG HOCK

SIBU

Lot 438, Block 5
1st Floor Town District
16-E, Lane 4 Lanang Road
96000 Sibu, Sarawak
Tel. : 084-348333
Fax.: 084-317766
BRANCH MANAGER : CHAI MUI CHIN

SITIAWAN

11 (Ground & 1st Floor)
Taman Sentosa Dua
Jalan Lumut
32000 Sitiawan, Perak
Tel. : 05-6919333
Fax.: 05-6911333
BRANCH MANAGER : MICHAEL LING HIENG
PING

SUNGAI PETANI

9, Jalan Cempaka 1
Bandar Aman Jaya
08000 Sungai Petani, Kedah
Tel. : 04-4428333
Fax.: 04-4428212
BRANCH MANAGER : KHOR CHEW HONG

TAIPING

408, Taman Saujana
Kamunting
34600 Taiping, Perak
Tel. : 05-8086333
Fax.: 05-8083223
BRANCH MANAGER : TANG MUNG SAN

TAWAU

TB311, 1st Floor
Block 36, Fajar Complex
91000 Tawau, Sabah
Tel. : 089-762633
Fax.: 089-762533
BRANCH MANAGER : THIEN VUN SING

TEMERLOH

27, Jalan Sudirman 3
Bandar Seri Semantan
28000 Temerloh, Pahang
Tel. : 09-2960933
Fax.: 09-2966933
BRANCH MANAGER : LEONG KA YEN

WILAYAH

32, Jalan Yap Ah Shak
50300 Kuala Lumpur
Tel. : 03-26989333
Fax.: 03-26989933
BRANCH MANAGER : CHOW WEY MING