



Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)
(Incorporated in Malaysia)

Financial statements - 30 June 2006

**Together with Directors'
and Auditors' Reports**

(In Ringgit Malaysia)

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Reports and financial statements for the year ended 30 June 2006

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Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Directors' report for the financial year ended 30 June 2006

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2006.

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	30,614 =====

Dividends

Since the end of the previous financial year, the Company paid a final dividend of approximately 97.22% less tax totalling RM140 million in respect of financial year ended 30 June 2005 on 23 August 2005.

The final dividend recommended by the Directors in respect of the financial year ended 30 June 2006 of approximately 13.89% less tax totalling RM20 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 2007 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 provision for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate provision had been made for doubtful debts.

At the date of this report, the Directors 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 2006 have not been substantially affected by any item, transaction or event of a material and unusual nature.

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 affect the Company.

During the financial year, the Board has held five meetings 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 two executive Directors, ensuring that issues are considered with independence and objectivity. The executive Directors are Dato' Quah Teong Moo and Kong Shu Yin.

ii) Management accountability

The Company has an organisational 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 are 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:

Tan Sri Kua Sian Kooi
Dato' Low Heong Chow @ Loh Heong Chow
Dato' Quah Teong Moo
Dato' Othman Bin Abdul
Kong Shu Yin
Fam Lee Ee (appointed on 20.02.2006)
Leow Ming Fong @ Leow Min Fong (appointed on 16.06.2006)
Yuen Choong Lai (resigned on 18.08.2005)

As the Company is a wholly owned subsidiary of Kurnia Asia Berhad during the financial year, the interest in the shares of the Company and its related corporations of Tan Sri Kua Sian Kooi, Dato' Low Heong Chow @ Loh Heong Chow, Dato' Quah Teong Moo, and Dato' Othman Bin Abdul, who are also Directors of the holding company, are shown in the Directors' Report of the holding company.

The shareholdings of other directors in office at the end of the financial year is as follows:

	Number of ordinary shares of RM0.25 each			
	At 1.7.2005	Bought	Sold	At 30.6.2006
Direct interest in Kurnia Asia Berhad:				
Kong Shu Yin	2,500,000	-	-	2,500,000
Fam Lee Ee	2,900,000	20,000	-	2,920,000

Other than the above, no other director held or dealt in any ordinary shares of the Company and its related corporations.

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 the financial statements of the Company and its related company) 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.

Company No. 44191-P

Holding and ultimate holding company

The Directors regard Kurnia Asia Berhad, 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:

Dato' Low Heong Chow @ Loh Heong Chow

Kong Shu Yin

Petaling Jaya,

Date: 6 November 2006

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Statement by Directors Pursuant to Section 169 (15) of the Companies Act, 1965

We, Dato' Low Heong Chow @ Loh Heong Chow and Kong Shu Yin, 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 11 to 44 are properly drawn up to give a true and fair view of the state of affairs of the Company as at 30 June 2006 and of its 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:

Dato' Low Heong Chow @ Loh Heong Chow

Kong Shu Yin

Petaling Jaya,

Date: 6 November 2006

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Statutory declaration Pursuant to Section 169(16) of the Companies Act, 1965

I, **Dang Mei Yin**, 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 11 to 44 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 Petaling Jaya on 6 November 2006

Dang Mei Yin

Before me:

HAJI MUHAMMAD BIN HARON S.M.S, A.M.N.

Commissioner for Oaths

Report of the auditors to the members of Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 11 to 44. The preparation of the financial statements is 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 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 2006 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: 2229/04/08(J)

Kuala Lumpur,
Date: 6 November 2006

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Balance sheet at 30 June 2006

	Note	2006 RM'000	2005 RM'000
Assets			
Property and equipment	3	258,346	253,921
Goodwill	4	-	-
Investments	5	1,418,955	1,539,600
Loans (secured)	6	20,039	22,418
Receivables	7	97,445	58,974
Tax recoverable		38,637	-
Cash and cash equivalents	8	41,547	36,472
Total assets		<u>1,874,969</u>	<u>1,911,385</u>
Liabilities			
Provision for outstanding claims	9	972,968	870,373
Payables	10	50,158	56,088
Provision for taxation		-	13,018
Retirement benefits	11	11,881	9,938
Deferred tax liability	12	9,923	6,079
Total liabilities		<u>1,044,930</u>	<u>955,496</u>
Insurance reserves			
Unearned premium reserve	13	447,976	464,440
Shareholders' equity			
Share capital	14	200,000	200,000
Reserves	15	182,063	291,449
		<u>382,063</u>	<u>491,449</u>
Total liabilities, insurance reserves and shareholders' equity		<u>1,874,969</u>	<u>1,911,385</u>

The above balance sheet statement is to be read in conjunction with the notes to the financial statements on pages 17 to 44.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 30 June 2006

	Note	Share capital RM'000	Distributable Retained profits RM'000	Total RM'000
At 1 July 2004		200,000	212,763	412,763
Net profit for the year		-	153,686	153,686
Dividend paid	23	-	(75,000)	(75,000)
At 30 June 2005		200,000	291,449	491,449
Net profit for the year		-	30,614	30,614
Dividend paid	23	-	(140,000)	(140,000)
At 30 June 2006		200,000	182,063	382,063
		=====	=====	=====
		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 17 to 44.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Income statement for the year ended 30 June 2006

	Note	2006 RM'000	2005 RM'000
Operating revenue	16	1,162,887 =====	1,240,542 =====
Surplus transferred from insurance revenue account		43,467	214,498
Profit from operations before taxation		43,467	214,498
Tax expense	17	(12,853)	(60,812)
Net profit for the year		30,614 =====	153,686 =====
Basic earnings per ordinary share (sen)	18	15 =====	77 =====

The above income statement is to be read in conjunction with the notes to the financial statements on pages 17 to 44.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

General insurance revenue account for the year ended 30 June 2006

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium		19,343	20,346	1,019,441	1,094,313	6,574	7,562	55,901	64,841	1,101,259	1,187,062
Less: Reinsurance		(7,892)	(8,192)	(52,924)	(62,406)	(2,038)	(2,542)	(15,623)	(20,999)	(78,477)	(94,139)
Net premium		11,451	12,154	966,517	1,031,907	4,536	5,020	40,278	43,842	1,022,782	1,092,923
(Increase)/decrease in unearned premium reserves	13	(39)	315	15,250	(38,876)	258	81	995	528	16,464	(37,952)
Earned premium		11,412	12,469	981,767	993,031	4,794	5,101	41,273	44,370	1,039,246	1,054,971
Net claims incurred	19	(5,864)	(6,175)	(738,105)	(599,384)	(5,471)	(3,469)	(22,550)	(13,323)	(771,990)	(622,351)
Net commission		(868)	(644)	(96,783)	(96,815)	(635)	(680)	(6,629)	(6,786)	(104,915)	(104,925)
		(6,732)	(6,819)	(834,888)	(696,199)	(6,106)	(4,149)	(29,179)	(20,109)	(876,905)	(727,276)
Underwriting surplus before management expenses		4,680	5,650	146,879	296,832	(1,312)	952	12,094	24,261	162,341	327,695
Management expenses	20									(184,837)	(168,228)
Underwriting (deficit)/surplus										(22,496)	159,467
Investment income	21									61,628	53,480
Other income-net	22									4,335	1,551
Transfer to income statement										43,467	214,498

The above general insurance account is to be read in conjunction with the notes to the financial statements on pages 17 to 44.

Kurnia Insurans (Malaysia) Berhad

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Cash flow statement for the year ended 30 June 2006

	2006 RM'000	2005 RM'000
Cash flow from operating activities		
Profit before tax	43,467	214,498
Adjustments for:		
Depreciation	18,191	17,196
Increase/(Decrease) in unearned premium reserves	(16,464)	37,952
Investment income	(60,684)	(53,350)
Loss/(Profit) on disposal of investments	2,190	(2,064)
Gain on disposal of equipment	(84)	(799)
Equipment written off	28	8
(Write back of)/Allowance for diminution in value of investments, net	(4,497)	3,698
Write back of allowance for doubtful debts	(4,175)	(3,975)
Bad debts recovery	(147)	(6)
Provision for retirement benefits	2,377	2,199
Accretion of discounts, net of amortisation of premiums	(944)	(130)
	-----	-----
(Loss)/Profit from operations before changes in operating assets and liabilities	(20,742)	215,227
Purchase of investments	(1,289,965)	(80,867)
Proceeds from redemption and disposal of investments	660,910	203,569
Decrease/(Increase) in loans	2,379	(2,893)
Decrease/(Increase) in fixed and call deposits	719,306	(404,310)
Increase in receivables	1,831	46,167
(Decrease)/Increase in outstanding claims	102,595	120,781
(Decrease) in payables	(5,929)	(7,769)
	-----	-----
Tax paid	(60,664)	(37,309)
Investment income received		
Dividend	14,382	10,071
Interest	43,966	43,702
Retirement benefits paid	(434)	(301)
	-----	-----
Net cash generated from operating activities	167,635	106,068
	-----	-----

Cash flow statement for the year ended 30 June 2006 (continued)

	2006 RM'000	2005 RM'000
Cash flow from investing activities		
Proceeds from disposal of equipment	85	1,908
Purchase of equipment	(22,645)	(30,840)
	<hr/>	<hr/>
Net cash used in investing activities	(22,560)	(28,932)
	-----	-----
Cash flow from financing activity		
Shareholders dividend paid	(140,000)	(75,000)
	<hr/>	<hr/>
Net cash used in financing activity	(140,000)	(75,000)
	-----	-----
Net increase in cash and cash equivalents	5,075	2,136
Cash and cash equivalents at beginning of year	36,472	34,336
	<hr/>	<hr/>
Cash and cash equivalents at end of year	41,547	36,472
	=====	=====
Cash and cash equivalents comprise:		
Cash and bank balances (Note 8)	41,547	36,472
	<hr/>	<hr/>
	=====	=====

The above cash flow statement is to be read in conjunction with the notes to the financial statements on pages 17 to 44.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)
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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 1,862 (2005 - 1,813).

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 Asia Berhad, 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 6 November 2006.

2. Summary of significant accounting policies

The following accounting policies are adopted by the Company and are consistent with those adopted in previous years.

(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.

2. Summary of significant accounting policies (continued)

(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.

(c) Depreciation

Freehold land and capital work-in-progress are not amortised. Leasehold land is amortised in equal installments over the period of the respective leases 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 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.

2. Summary of significant accounting policies (continued)

(e) Investments

Investments in Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Government Investment Issues, Bankers Acceptances and other unquoted unsecured corporate debt securities 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 months period.

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

(f) Investment property

Freehold land is stated at cost and includes related and incidental expenditure incurred less accumulated impairment losses, if any.

(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 as follows:-

- a) Motor premiums which remain outstanding for more than 30 days.
- b) Non-motor premiums including agents and reinsurance balances which remain outstanding for more than six months.

2. Summary of significant accounting policies (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

(I) General insurance underwriting results (continued)

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 as determined by independent external actuarial valuation and as modified by Bank Negara Malaysia.

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.

2. Summary of significant accounting policies (continued)

(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	RM9.61	(2005: RM9.20)
1 USD	RM3.68	(2005: NIL)

(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.

Company No. 44191-P

3. Property and equipment

<i>Cost</i>	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office improvements RM'000	Furniture and fittings RM'000	Office equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
At 1 July 2005	15,706	34,019	138,989	14,495	44,395	79,966	11,836	2,634	342,040
Additions	153	-	2,389	375	2,237	14,339	968	2,184	22,645
Disposals	-	-	-	-	-	(6)	(430)	-	(436)
Written off	-	-	-	-	(38)	-	-	-	(38)
Reclassification	-	-	59	657	836	51	-	(1,603)	-
At 30 June 2006	15,859	34,019	141,437	15,527	47,430	94,350	12,374	3,215	364,211
<i>Accumulated depreciation</i>									
At 1 July 2005	-	1,161	12,821	8,181	19,725	38,653	7,578	-	88,119
Charge for the year	-	435	2,695	1,348	4,342	8,117	1,254	-	18,191
Disposals	-	-	-	-	-	(5)	(430)	-	(435)
Written off	-	-	-	-	(10)	-	-	-	(10)
At 30 June 2006	-	1,596	15,516	9,529	24,057	46,765	8,402	-	105,865

3. Property and equipment

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office improvements RM'000	Furniture and fittings RM'000	Office equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
<i>Net book value</i>									
At 30 June 2006	15,859	32,423	125,921	5,998	23,373	47,585	3,972	3,215	258,346
At 30 June 2005	15,706	32,858	126,168	6,314	24,670	41,313	4,258	2,634	253,921
Depreciation charge for the year ended 30 June 2005	-	416	2,655	1,458	4,300	6,559	1,808	-	17,196
Cost of fully depreciated assets which are still in use									
- 2006	-	-	-	2,885	3,717	12,097	5,844	-	24,543
- 2005	-	-	-	878	470	9,722	4,346	-	15,416

Leasehold land with leasehold period of 50 years or less and more than 50 years amounted to RM198,000 (2005-RM202,000) and RM32,225,000 (2005-RM32,656,000) respectively.

Company No. 44191-P

4. Goodwill

	2006 RM'000	2005 RM'000
<i>Cost</i>		
At 1 July/30 June	35,554	35,554
	=====	=====
<i>Accumulated amortisation/impairment losses</i>		
At 1 July/30 June	35,554	35,554
	=====	=====
<i>Net book value</i>		
At 30 June	-	-
	=====	=====

5. Investments

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investment property, at cost				
Freehold land	7,500		7,500	
	-----		-----	
Malaysian Government Securities	32,724		45,387	
Amortisation of premiums				
net of accretion of discounts	(1,211)		(2,419)	
	-----		-----	
	31,513		42,968	
	-----		-----	
Cagamas Bonds	172,048		140,179	
Amortisation of premiums				
net of accretion of discounts	(44)		(93)	
	-----		-----	
	172,004		140,086	
	-----		-----	
Zero Coupon Government				
Guaranteed Bonds	14,216		14,216	
Accretion of discounts	4,999		4,090	
	-----		-----	
	19,215		18,306	
	-----		-----	
Government Investment Issues	4,350		-	
Accretion of discounts	130		-	
	-----		-----	
	4,480		-	
	-----		-----	

5. Investments (continued)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Bankers Acceptances	86,065		-	
Accretion of discounts	397		-	
	<hr/>		<hr/>	
	86,462		-	
	-----		-----	
Negotiable Instrument of Deposits	95,000		-	
Allowance for diminution in value	(17)		-	
	<hr/>		<hr/>	
	94,983		-	
	-----		-----	
Quoted in Malaysia:				
Shares of corporations	212,031		119,622	
Allowance for diminution in value	-		(2,750)	
	<hr/>		<hr/>	
	212,031	217,892	116,872	117,154
	-----	-----	-----	-----
Unit trusts	5,922		17,838	
Allowance for diminution in value	(381)		(2,145)	
	<hr/>		<hr/>	
	5,541	5,541	15,693	15,693
	-----	-----	-----	-----
Unquoted in Malaysia:				
Secured corporate debt securities	15,504		15,504	
Amortisation of premiums net of accretion of discounts	(440)		(356)	
	<hr/>		<hr/>	
	15,064		15,148	
	-----		-----	
Unsecured corporate debt securities	430,276		124,793	
Amortisation of premiums net of accretion of discounts	(939)		(1,897)	
	<hr/>		<hr/>	
	429,337		122,896	
	-----		-----	
Secured short term loan				
- Performing loan	14,164		20,164	
- Non performing loan	6,000		-	
	<hr/>		<hr/>	
	20,164		20,164	
	-----		-----	

5. Investments (continued)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Shares of corporation	1,430		1,430	
	-----		-----	
Fixed and call deposits with:				
Licensed banks	244,514		348,337	
Licensed finance companies	-		104,129	
Other financial institutions	74,717		586,071	
	-----		-----	
	319,231		1,038,537	
	-----		-----	
Total Investments	1,418,955		1,539,600	
	=====		=====	
Investments maturing after twelve months:				
Malaysian Government Securities	26,231		36,675	
Cagamas Bonds	57,000		140,086	
Zero Coupon Government Guaranteed Bonds	4,538		18,306	
Government Investment Issues	4,480		-	
Unquoted secured corporate debt securities	-		15,148	
Unquoted unsecured corporate debt securities	374,750		102,768	
Unquoted secured short term loan	-		14,164	
Fixed and call deposits	36,219		-	
	=====		=====	

6. Loans (secured)

	2006 RM'000	2005 RM'000
Mortgage loans	19,854	21,949
	-----	-----
Other loans	210	509
Interest-in-suspense	(12)	(40)
	-----	-----
	198	469
Allowance for doubtful debts	(13)	-
	-----	-----
	185	469
	-----	-----
	20,039	22,418
	=====	=====
Receivable after twelve months	8,975	9,352
	=====	=====

7. Receivables

	2006	2005
	RM'000	RM'000
<i>Trade receivables</i>		
Outstanding premium including agents/brokers and co-insurers balances	46,260	45,599
Allowance for doubtful debts	(31,507)	(37,708)
	<hr/>	<hr/>
	14,753	7,891
Amount due from reinsurers/ceding companies	13,637	17,857
Allowance for doubtful debts	(11,354)	(11,986)
	<hr/>	<hr/>
	2,283	5,871
<i>Other receivables</i>		
Other receivables, deposits and prepayments	80,209	45,012
Loan stock of a statutory body	200	200
	<hr/>	<hr/>
	97,445	58,974
	=====	=====

Trade receivables

A total amount of RM2,645,000 (2005 - RM8,453,000) 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 RM720,000 (2005 - RM835,000) which constitute more than 2% of the carrying amount.

Other receivables

Included in other receivables as at year end is an amount of RM55,217,000 (2005 - RM22,068,000) relating to proceeds receivable from the disposal of certain quoted investments and was fully received subsequent to the financial year end.

8. Cash and cash equivalents

	2006	2005
	RM'000	RM'000
Cash and bank balances	41,547	36,472
	=====	=====

9. Provision for outstanding claims

	2006 RM'000	2005 RM'000
Provision for outstanding claims	1,035,335	930,291
Less: Recoverable from reinsurers thereon	(62,367)	(59,918)
	<hr/>	<hr/>
Net outstanding claims	972,968	870,373
	=====	=====

10. Payables

	2006 RM'000	2005 RM'000
<i>Trade payables</i>		
Amount due to reinsurers/ceding companies and co-insurers	9,948	20,461
Amount due to agents/brokers and insureds	3,614	3,547
	<hr/>	<hr/>
	13,562	24,008
<i>Other payables</i>		
Other payables and accrued expenses	36,596	32,080
	<hr/>	<hr/>
	50,158	56,088
	=====	=====
<i>Trade payables</i>		

The unreconciled differences for the current year is less than 2% of the carrying amount.

11. Retirement benefits

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

	2006 RM'000	2005 RM'000
At 1 July 2005/2004	9,938	8,040
Benefits paid	(434)	(301)
Expenses recognised in the revenue account (Note 20)	2,377	2,199
	<hr/>	<hr/>
At 30 June	11,881	9,938
	=====	=====

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

	2006 RM'000	2005 RM'000
Present value of unfunded obligations	11,881	9,938
	=====	=====
Payable after twelve months	11,881	9,471
	=====	=====

The expense recognised in the revenue account under the management expenses caption which is included in salaries and related expenses are analysed as follows:

	2006 RM'000	2005 RM'000
Current service cost	1,492	1,425
Interest cost	830	697
Actuarial loss	55	77
	<hr/>	<hr/>
	2,377	2,199
	=====	=====

Principal actuarial assumptions used at the balance sheet date:

	2006	2005
Discount rate	7%	7%
Future salary increases	6%	6%
	=====	=====

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:

	2006 RM'000	2005 RM'000
Deferred tax liability	9,923	6,079
	=====	=====

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

	2006 RM'000	2005 RM'000
Property and equipment - capital allowances	12,548	10,480
Investments	698	(1,560)
Unearned premium reserve	34	(23)
Retirement benefits	(3,327)	(2,783)
Other deductible temporary differences	(30)	(35)
	-----	-----
	9,923	6,079
	=====	=====

13. Unearned premium reserves

2006	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscel- laneous RM'000	Total RM'000
At 1 July 2005	5,239	440,990	1,335	16,876	464,440
Increase/(Decrease) during the year	39	(15,250)	(258)	(995)	(16,464)
At 30 June 2006	5,278	425,740	1,077	15,881	447,976
	=====	=====	=====	=====	=====
2005					
At 1 July 2004	5,554	402,114	1,416	17,404	426,488
Increase/(Decrease) during the year	(315)	38,876	(81)	(528)	37,952
At 30 June 2005	5,239	440,990	1,335	16,876	464,440
	=====	=====	=====	=====	=====

14. Share capital

	No. of shares '000	2006 RM'000	No. of shares '000	2005 RM'000
Authorised:				
Ordinary shares of RM1.00 each	300,000	300,000	300,000	300,000
	=====	=====	=====	=====
Issued and fully paid:				
Ordinary shares of RM1.00 each	200,000	200,000	200,000	200,000
	=====	=====	=====	=====

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 2006.

16. Operating revenue

	2006 RM'000	2005 RM'000
Gross premium	1,101,259	1,187,062
Investment income (Note 21)	61,628	53,480
	-----	-----
	1,162,887	1,240,542
	=====	=====

17. Tax expense

	2006 RM'000	2005 RM'000
Current tax expense		
Malaysian - current	11,137	64,463
- over provision in prior years	(2,128)	(4,000)
Deferred tax		
Reversal of temporary differences	3,809	(136)
Under provision in prior years	35	485
	-----	-----
	12,853	60,812
	=====	=====

17. Tax expense (continued)

Reconciliation of effective tax rate and expense

	2006		2005	
	%	RM'000	%	RM'000
Profit before taxation		43,467		214,498
		=====		=====
Income tax using Malaysian tax rates	28	12,171	28	60,060
Non-deductible expenses	8	3,562	2	4,559
Tax exempt income	(2)	(787)	-	(292)
		-----		-----
(Over)/Under provision in prior years	34 (5)	14,946 (2,093)	30 (2)	64,327 (3,515)
		-----		-----
Tax expense	29	12,853	28	60,812
		=====		=====

18. Earnings per share

Earnings per ordinary share is calculated based on the profit for the year after tax of RM30,614,000 (2005 - RM153,686,000) divided by the number of ordinary shares in issue of 200,000,000 (2005 - 200,000,000) during the year.

19. Net claims incurred

2006		Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscel- laneous RM'000	Total RM'000
Gross claims paid less salvage		7,454	682,768	4,897	25,621	720,740
Reinsurance recoveries		(2,908)	(42,263)	(870)	(5,304)	(51,345)
		-----	-----	-----	-----	-----
Net claims paid	(a)	4,546	640,505	4,027	20,317	669,395
Net outstanding claims:						
At 30 June 2006	(b)	6,479	940,592	5,968	19,929	972,968
At 1 July 2005	(c)	5,161	842,992	4,524	17,696	870,373
		-----	-----	-----	-----	-----
Net claims incurred	(a+b-c)	5,864	738,105	5,471	22,550	771,990
		=====	=====	=====	=====	=====

19. Net claims incurred (continued)

2005		Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscel- laneous RM'000	Total RM'000
Gross claims paid less salvage		10,387	516,747	6,437	21,942	555,513
Reinsurance recoveries		(3,307)	(41,181)	(2,253)	(7,202)	(53,943)
Net claims paid	(a)	7,080	475,566	4,184	14,740	501,570
Net outstanding claims:						
At 30 June 2005	(b)	5,161	842,992	4,524	17,696	870,373
At 1 July 2004	(c)	6,066	719,174	5,239	19,113	749,592
Net claims incurred	(a+b-c)	6,175	599,384	3,469	13,323	622,351

20. Management expenses

	2006 RM'000	2005 RM'000
Insurance fund		
Salaries and related expenses	88,676	91,219
Directors' remuneration		
Fee	386	495
Salary and other remuneration	6,130	3,577
Auditors' remuneration	158	132
Rental of offices and premises	1,067	1,150
Depreciation of property and equipment	18,191	17,196
Write back of allowance for doubtful debts	(4,175)	(3,975)
Bad debts recovery	(147)	(6)
IGSF levies	2,749	2,965
Advertisement expenses	19,587	13,984
Bank charges	10,525	11,428
Other expenses	41,690	30,063
	184,837	168,228

20. Management expenses (continued)

The estimated cash value of benefits-in-kind received by the Directors of the Company amounted to RM218,000 (2005 – RM71,000).

The staff costs of the Company for the financial year amounts to RM89,761,000 (2005 – RM93,232,000). Included in staff costs is defined contribution plan and retirement benefit expenses amounting to RM8,368,000 (2005–RM7,990,000) and RM2,377,000 (2005 – RM2,199,000) respectively.

Directors' and CEO's Remuneration

	2006	2005
	RM'000	RM'000
Insurance fund		
Executive Directors		
Salaries	684	742
Bonus	285	1,056
Benefits-in-kind	71	64
Other remuneration	116	215
	<hr/>	<hr/>
	1,156	2,077
Non-executive Directors		
Fees	386	495
Benefit-in-kind	147	7
Other remuneration	5,045	1,564
	<hr/>	<hr/>
	5,578	2,066
	<hr/>	<hr/>
Total Directors' Remuneration	6,734	4,143
	=====	=====

The remuneration, including benefits-in-kind, attributable to the CEO of the insurer during the year amounted to RM547,000 (2005 - RM625,000).

21. Investment income

	2006 RM'000	2005 RM'000
Insurance fund		
Interest income from:		
Malaysian Government Securities	2,857	3,267
Cagamas Bonds	6,709	5,112
Unquoted corporate debt securities	15,514	9,155
Secured short term loans		
-Performing loan	1,253	2,627
Government Investment Issues	15	-
Negotiable Instrument of Deposits	1,239	-
Fixed and call deposits	18,454	22,885
Gross dividends from:		
Quoted shares in Malaysia	13,604	9,117
Quoted unit trusts in Malaysia	794	1,089
Unquoted shares in Malaysia	245	98
Accretion of discounts, net of amortisation of premiums	944	130
	<u>61,628</u>	<u>53,480</u>
	=====	=====

22. Other income - net

	2006 RM'000	2005 RM'000
Insurance fund		
Other income		
Other interest income	1,021	1,280
Sundry income	951	1,114
Profit on disposal of investments	-	2,064
Gain on disposal of equipment	84	799
Write back of allowance for diminution in value of investments in quoted shares and unit trusts	4,514	-
	<u>6,570</u>	<u>5,257</u>
	-----	-----
Other expenditure		
Equipment written off	28	8
Allowance for diminution in value of investments in quoted shares and unit trusts	-	3,698
Allowance for diminution in value of investments in Negotiable Instrument of Deposits	17	-
Loss on disposal of investments	2,190	-
	<u>2,235</u>	<u>3,706</u>
	-----	-----
Other income - net	(a-b) 4,335	1,551
	=====	=====

23. Dividends

	2006 RM'000	2005 RM'000
Dividend paid:		
Final dividend of 97.22% less tax for financial year 2005 (2005 – 52.08% less tax for financial year 2004)	140,000	75,000
	=====	=====

The proposed final dividend of 13.89% less tax amounting to RM20 million will be subject to shareholders' approval at the forthcoming Annual General Meeting. The financial statements for the current year do not reflect this proposed final dividend. Such dividend if approved by the shareholders, will be adjusted against shareholders' equity as an appropriation of retained profits during the financial year ending 30 June 2007.

24. Capital commitments

Capital expenditure approved by the Directors but not provided for in the financial statements as at 30 June 2006 amounted to approximately:

	2006 RM'000	2005 RM'000
Property and equipment		
Authorised and contracted for	8,488	12,922
	=====	=====

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, Tan Sri Kua Sian Kooi.

<i>Transactions with:</i>	2006 RM'000	2005 RM'000
Holding company - Kurnia Asia Berhad		
Sales of motor vehicles	-	964
A company in which Tan Sri Kua Sian Kooi and Dato' Quah Teong Moo have interests:		
Kua Boon Chuan Realty Sdn. Bhd.		
Rental paid	102	138

25. Related parties (continued)

<i>Transactions with:</i>	2006 RM'000	2005 RM'000
A company in which Dato' Othman Abdul is a common director and Dato' Othman Abdul and Tan Sri Kua Sian Kooi have indirect interest:		
Kurnia Leisure Sdn. Bhd.		
Tour services & other services paid	6,945	5,241
A company in which Dato' Low Heong Chow @ Loh Heong Chow and Tan Sri Kua Sian Kooi is a common director and Tan Sri Kua Sian Kooi has direct interest:		
Kurnia Insurance Thailand		
Reinsurance inwards premiums	332	171
Reinsurance inwards claims paid	195	437
	=====	=====

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

26. Financial instruments

(a) 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 has established certain committees to address the risks on an ongoing basis.

Underwriting risk

Underwriting risk includes the risk of incurring higher claims cost 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 standards applied to the security of reinsurers.

26. Financial instruments (continued)

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 control department and an informal 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 other than as disclosed in the next paragraph. 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 investment disposals that represents approximately 69% (2005 – 49%) 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.

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 which is in accordance to BNM's guidelines on admitted assets. Risk and returns are constantly monitored and reviewed by the Executive Committee.

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26. Financial instruments (continued)

(b) 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 assets on the balance sheet.

	← 2006 →					← 2005 →				
	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000
Financial assets										
Investments										
- Malaysian Government Securities	6.26	31,513	5,282	26,231	-	6.23	42,968	6,293	36,675	-
- Cagamas Bonds	4.06	172,004	115,004	16,000	41,000	3.53	140,086	-	140,086	-
- Zero Coupon Government Guaranteed Bonds	5.43	19,215	14,677	4,538	-	5.43	18,306	-	18,306	-
- Government Investment Issues	3.38	4,480	-	4,480	-	-	-	-	-	-
- Bankers Acceptances	3.76	86,462	86,462	-	-	-	-	-	-	-
- Negotiable Instrument of Deposits	3.40	94,983	94,983	-	-	-	-	-	-	-
- Unquoted secured corporate debt securities	8.03	15,064	15,064	-	-	8.03	15,148	-	15,148	-
- Unquoted unsecured corporate debt securities	5.17	429,337	54,587	221,074	153,676	6.53	122,896	20,128	57,552	45,216
-Secured short term loans										
Performing loan	9.25	14,164	14,164	-	-	11.33	20,164	6,000	14,164	-
Non performing loan	-	6,000	6,000	-	-	-	-	-	-	-
- Fixed and call deposits	3.43	319,231	283,012	36,219	-	2.76	1,038,537	1,038,537	-	-
Loans (secured)										
- Mortgage loans	4.89	19,854	10,879	2,182	6,793	4.54	21,949	12,597	2,126	7,226
Total Financial Assets		1,212,307	700,114	310,724	201,469		1,420,054	1,083,555	284,057	52,442

26. Financial instruments (continued)

(c) 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 the other financial instruments is as follows:

- The fair values of Malaysian Government Securities, Cagamas Bonds, Government Investment Issues and Zero Coupon 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 Negotiable Instrument of Deposits, unquoted secured and unsecured corporate debt securities are based on the average indicative market yields obtained from three financial institutions.
- The carrying amount of secured short term loan, Bankers Acceptances and fixed and call deposits with a maturity period 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 2006, the estimated fair values of the loans approximate their carrying values.

26. Financial instruments (continued)

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

	2006		2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Investments				
- Malaysian Government Securities	31,513	32,791	42,968	46,336
- Cagamas Bonds	172,004	171,030	140,086	140,883
- Zero Coupon Government Guaranteed Bonds	19,215	19,274	18,306	18,863
- Government Investment Issues	4,480	4,309	-	-
- Bankers Acceptances	86,462	86,462	-	-
- Negotiable Instrument of Deposits	94,983	96,107	-	-
- Unquoted secured corporate debt securities	15,064	15,282	15,148	15,641
- Unquoted unsecured corporate debt securities	429,337	423,490	122,896	130,374
- Secured short term loan				
Performing loan	14,164	14,164	20,164	20,164
Non Performing loan	6,000	6,000	-	-
- Fixed and call deposits	319,231	319,231	1,038,537	1,038,537
- Quoted shares of corporations	212,031	217,892	116,872	117,154
- Quoted unit trusts	5,541	5,541	15,693	15,693
Loans (secured)				
- Mortgage loans	19,854	19,854	21,949	21,949
- Other loans	185	185	469	469