



Kurnia Insurans (Malaysia) Berhad

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

**Financial statements for the year
ended 30 June 2008
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 2008

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Kurnia Insurans (Malaysia) Berhad

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

Directors' report for the year ended 30 June 2008

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 30 June 2008.

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
Loss for the year	295,219 =====

Dividend

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year ended 30 June 2008.

Reserves and provisions

There were no material transfers to or from reserves and 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, 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:-

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

No contingent or other liabilities of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet 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, except for the additional IBNR charge resulting from the use of a higher confidence level, as disclosed in Note 3(1), the results of the operations of the Company for the financial year ended 30 June 2008 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, 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”) issued by Bank Negara Malaysia (“BNM”) 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 eight 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, ensuring that issues are considered with independence and objectivity.

Statement on corporate governance and internal controls (continued)

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 28 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. These processes are 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 to the Audit Committee usually within one month from the completion of the audit reports.

vi) Audit committee

The Company's financial reporting and internal control systems are overseen by the Audit Committee, which comprises two 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.

Statement on corporate governance and internal controls (continued)

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 Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

Directors of the Company

The Directors who served since the date of the last report are:

Tan Sri Dato' Kua Sian Kooi
Dato' Low Heong Chow @ Loh Heong Chow
Datuk Mohd Saufi Bin Abdullah (appointed on 11 January 2008)
Chia Ah Kow (appointed on 1 July 2008)
Paul Frankland (appointed on 10 September 2008)
Raymond Fam Chye Soon (appointed on 23 September 2008)
Dato' Quah Teong Moo (resigned on 24 June 2008)
Dato' Wira Othman Bin Abdul (resigned on 30 June 2008)
Kong Shu Yin (resigned on 24 June 2008)
Fam Lee Ee (resigned on 27 January 2008)
Leow Ming Fong @ Leow Min Fong (resigned on 1 July 2008)

Directors' interests

As the Company is a wholly-owned subsidiary of Kurnia Asia Berhad, the interest in the shares of the Company and its related corporations of Tan Sri Dato' Kua Sian Kooi, Dato' Low Heong Chow @ Loh Heong Chow and Datuk Mohd Saufi Bin Abdullah, who are also Directors of the holding company, are shown in the Directors' Report of the holding company.

None of the other Directors holding office at 30 June 2008 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

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 28 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 company

The Directors regard Kurnia Asia Berhad, a company incorporated in Malaysia, as the holding and ultimate holding company of the Company.

Subsequent event

On 10 September 2008, the Company executed a deed poll, pursuant to which the Company had agreed to issue up to RM400,000,000 nominal value irredeemable convertible subordinated debt ("ICSD") by means of a rights issue to its holding company, Kurnia Asia Berhad ("KAB"). Consequently, on even date, the Company also entered into a subscription agreement with KAB, pursuant to which KAB will subscribe for up to RM400,000,000 nominal value of the said ICSD.

The subscription proceeds received by the Company from the issuance of the ICSD were utilised to meet the solvency margin requirements of KIMB and simultaneously to fulfill the new risk based capital framework issued by Bank Negara Malaysia which will come into effect on 1 January 2009. The ICSD shall have a tenure of 5 years from the date of issuance, and bears interest at the rate of 1.5% per annum above the cost of fund of CIMB Bank Berhad or such other amended rates.

The ICSD shall be convertible into fully paid ordinary shares of the Company at the conversion price of RM1.00 per ordinary share ("Conversion Price") at any time during the tenure of the ICSD. All ICSD not converted during the tenure of the ICSD shall be automatically converted on the maturity date. On 19 September 2008, the Company issued RM400,000,000 nominal value of ICSD to KAB, and on even date, RM170,000,000 nominal value of ICSD was converted into ordinary shares of the Company at the Conversion Price.

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Auditors

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tan Sri Dato' Kua Sian Kooi

Chia Ah Kow

Petaling Jaya, Selangor

Date: 29 September 2008

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Balance sheet as at 30 June 2008

	Note	2008 RM'000	2007 RM'000
Assets			
Property, plant and equipment	4	200,056	221,596
Prepaid lease payments	5	31,585	32,004
Investments in debt and equity securities	6	1,608,724	1,678,500
Investment property	7	7,500	7,500
Loans (secured)	8	13,469	17,625
Receivables, deposits and prepayments	9	85,797	84,407
Current tax assets		33,986	31,889
Cash and cash equivalents	10	34,607	37,493
Total assets		<u>2,015,724</u>	<u>2,111,014</u>
Liabilities			
Provision for outstanding claims	11	1,429,381	1,211,752
Payables and accruals	12	57,633	62,647
Retirement benefits	13	15,461	13,774
Deferred tax liabilities	14	-	6,954
Total liabilities		<u>1,502,475</u>	<u>1,295,127</u>
Insurance reserves			
Unearned premium reserves	15	<u>441,157</u>	<u>448,576</u>
Shareholders' equity			
Share capital	16	200,000	200,000
(Accumulated loss)/Retained earnings		<u>(127,908)</u>	<u>167,311</u>
		<u>72,092</u>	<u>367,311</u>
Total liabilities, insurance reserves and shareholders' equity		<u>2,015,724</u>	<u>2,111,014</u>

The notes on pages 14 to 56 are an integral part of these financial statements.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 30 June 2008

		<i>Non-distributable</i>	<i>Distributable</i> (Accumulated loss)	
	Note	Share capital RM'000	/Retained earnings RM'000	Total equity RM'000
At 1 July 2006		200,000	182,063	382,063
Profit for the year		-	5,248	5,248
Dividends to shareholders	26	-	(20,000)	(20,000)
At 30 June 2007 / 1 July 2007		200,000	167,311	367,311
Loss for the year		-	(295,219)	(295,219)
At 30 June 2008		200,000	(127,908)	72,092

The notes on pages 14 to 56 are an integral part of these financial statements.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

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Income statement for the year ended 30 June 2008

	Note	2008 RM'000	2007 RM'000
Operating revenue	17	<u>1,162,525</u>	<u>1,169,849</u>
Transfer from general insurance revenue account		<u>(307,780)</u>	<u>16,343</u>
(Loss) / Profit before tax		<u>(307,780)</u>	<u>16,343</u>
Tax expense	18	12,561	(11,095)
(Loss) / Profit for the year		<u>(295,219)</u>	<u>5,248</u>
Basic earnings per ordinary share (sen)	19	<u>(148)</u>	<u>3</u>

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Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

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General insurance revenue account for the year ended 30 June 2008

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Gross Premium		26,792	22,469	955,679	1,003,299	7,138	7,146	92,288	63,462	1,081,897	1,096,376
Less : Reinsurance		(14,450)	(10,621)	(49,575)	(50,855)	(2,410)	(2,121)	(19,637)	(17,010)	(86,072)	(80,607)
Net Premium		12,342	11,848	906,104	952,444	4,728	5,025	72,651	46,452	995,825	1,015,769
Decrease/(Increase) in unearned premium reserves	15	366	(646)	20,762	4,118	59	(210)	(13,768)	(3,862)	7,419	(600)
Earned premium		12,708	11,202	926,866	956,562	4,787	4,815	58,883	42,590	1,003,244	1,015,169
Net claims incurred	20	(7,055)	(10,425)	(1,030,438)	(844,680)	(4,536)	(3,521)	(33,352)	(15,730)	(1,075,381)	(874,356)
Net commission		(1,026)	(571)	(85,904)	(89,969)	(430)	(374)	(11,127)	(5,799)	(98,487)	(96,713)
		(8,081)	(10,996)	(1,116,342)	(934,649)	(4,966)	(3,895)	(44,479)	(21,529)	(1,173,868)	(971,069)
Underwriting (deficit)/surplus before management expenses		4,627	206	(189,476)	21,913	(179)	920	14,404	21,061	(170,624)	44,100
Management expenses	21									(229,504)	(209,571)
Underwriting deficit										(400,128)	(165,471)
Investment income	23									80,628	73,473
Other income	24									38,848	109,475
Other expenses	25									(27,128)	(1,134)
Transfer to income statement										(307,780)	16,343

The notes on pages 14 to 56 are an integral part of these financial statements.

Kurnia Insurans (Malaysia) Berhad

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Cash flow statement for the year ended 30 June 2008

	2008 RM'000	2007 RM'000
Cash flows from operating activities		
(Loss)/Profit before tax	(307,780)	16,343
Adjustments for :		
Allowance for/(write back of) diminution in value of investments in debt and equity securities, net	26,077	(236)
Amortisation of premiums, net of accretion of discounts	1,524	92
Amortisation of prepaid lease payments	419	419
Bad debts recovered	(328)	(314)
Bad debts written off	1,467	2,225
Allowance for doubtful debts written back	(870)	(3,283)
Depreciation of property, plant and equipment	32,135	18,307
(Decrease)/Increase in unearned premium reserves	(7,419)	600
Gain on disposal of investments in debt and equity securities	(36,876)	(106,884)
(Gain)/Loss on disposal of property, plant and equipment	(95)	7
Investment income	(82,152)	(73,565)
Retirement benefits expense	3,247	2,578
Write off of property, plant and equipment	1,051	982
	<hr/>	<hr/>
Loss from operations before changes in operating assets and liabilities	(369,600)	(142,729)
Acquisition of investments in debt and equity securities	(700,318)	(1,161,851)
Proceeds from redemption and disposal of investments in debt and equity security	684,504	1,212,414
Decrease in loans	4,156	2,414
Decrease/(Increase) in fixed and call deposits	100,362	(170,207)
Decrease in receivables, deposit and prepayments	(10,568)	(20,350)
Increase in provision for outstanding claims	217,629	238,784
(Decrease)/Increase in payables and accruals	(6,146)	12,489
	<hr/>	<hr/>
Net cash used in operation	(79,981)	(29,036)
Tax refunded/ (paid)	3,510	(7,316)
Dividend income received	19,101	14,532
Interest income received	66,463	53,420
Retirement benefits paid	(428)	(685)
	<hr/>	<hr/>
Net cash from operating activities	8,665	30,915

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Cash flow statement for the year ended 30 June 2008

(continued)

	2008 RM'000	2007 RM'000
Cash flows from investing activity		
Acquisition of property, plant and equipment	(11,660)	(15,040)
Proceeds from disposal of property, plant and equipment	<u>109</u>	<u>71</u>
Net cash used in investing activity	<u>(11,551)</u>	<u>(14,969)</u>
Cash flows from financing activity		
Dividend paid to shareholders of the Company	<u>-</u>	<u>(20,000)</u>
Net cash used in financing activity	<u>-</u>	<u>(20,000)</u>
Net decrease in cash and cash equivalents	(2,886)	(4,054)
Cash and cash equivalents at 1 July	<u>37,493</u>	<u>41,547</u>
Cash and cash equivalents at 30 June	<u><u>34,607</u></u>	<u><u>37,493</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances (Note 10)	<u><u>34,607</u></u>	<u><u>37,493</u></u>

The notes on pages 14 to 56 are an integral part of these financial statements.

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Notes to the financial statements

1. Principal activity and general information

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and 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 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 holding and ultimate holding company is Kurnia Asia Berhad, a company incorporated and domiciled in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad.

The financial statements were approved by the Board of Directors on 29 September 2008.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards (FRS) issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted 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 in all material aspect.

As of 30 June 2008, the Company recorded a Margin of Solvency deficit of RM264,094,547. To regularise this deficit position, the Company issued RM400,000,000 nominal value irredeemable convertible subordinated debt ("ICSD") by means of a right issue to its holding company, Kurnia Asia Berhad ("KAB") on 19 September 2008. Accordingly, these financial statements are prepared on a going concern basis.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

The accounting policies adopted by the Company are consistent with those adopted in the previous financial year except for the adoption of the applicable new and revised FRSs issued by MASB that are effective for the financial period beginning on 1 July 2007 as follows:

FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 119	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation

Other than the expanded disclosure requirements as shown in Note 5, Note 22 and Note 28 on the adoption of FRS 117 and FRS 124, the adoption of the rest of above mentioned FRSs does not have any significant financial impact on the financial statements of the Company.

The MASB has also issued the following FRSs and Interpretations that are effective for annual periods beginning 1 July 2007 and that are not applicable to the Company and thus have not been applied in preparing these financial statements.

FRSs / Interpretations

FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 111	Construction Contracts
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 134	Interim Financial Reporting
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

The MASB announced that FRS 139, Financial Instruments: Recognition and Measurement will be effective for annual periods beginning on or after 1 January 2010; hence the Company plans to adopt FRS 139 for the financial year ending 30 June 2011. The impact of applying FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in FRS 139.103AB.

(b) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

General business assets and liabilities relates to both general insurance fund and shareholders' fund.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 13 - retirement benefits
- Note 3(1) - provision for claims (including IBNR)
- Note 29 - financial instruments

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Company, unless otherwise stated.

Certain comparative figures have been restated as a result of the adoption of FRS 117, Leases (see Note 32).

(a) Property, plant and equipment

(i) *Recognition and measurement*

Freehold land is stated at cost. Other items of property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” or “other expenses” respectively in the revenue account.

(ii) *Reclassification to prepaid lease payments*

The Company had previously classified leasehold land as finance lease and had recognised the amounts of prepaid lease payments as properties within its property, plant and equipment. Following the adoption of FRS 117, Leases, leasehold land with title that is not expected to pass to the lessee by the end of the lease term is treated as an operating lease and has been accounted for as prepaid lease payments.

This reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and comparative amounts have been restated as disclosed in Note 32.

3. Significant accounting policies (continued)

(a) Property, plant and equipment (continued)

(iii) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the revenue account as incurred.

(iv) *Depreciation*

Depreciation is recognised in the revenue account on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use. Leased assets are depreciated over the shorter of the lease terms and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Office improvements	3 - 5 years
Furniture and fittings	10 years
Office equipment and computers	5 - 10 years
Motor vehicles	5 years

Depreciation methods, residual values and useful lives are reassessed at the balance sheet date.

(v) *Change in estimates*

Estimates in respect of computers were revised in 2008 (see Note 4).

3. Significant accounting policies (continued)

(b) Leased assets

Operating leased assets are not recognised on the Company's balance sheet. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments, except for leasehold land classified as investment property.

Payments made under operating leases are recognised in the revenue account on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(c) Investments in debt and equity securities

Investments in debt and equity securities are recognised initially at purchase price plus attributable transaction costs.

Subsequent to initial recognition:

- Investments in Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Government Investment Issues, Government Guaranteed Bonds, Negotiable Instrument Deposits, unquoted secured and 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. Specific allowance for diminution in value is made against the value of a particular quoted investment if diminution in value of a particular investment is not regarded as temporary. The allowance for diminution in value is recognised as an expense in the revenue account in which the decline is identified.

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.

3. Significant accounting policies (continued)

(c) Investments in debts and equity securities (continued)

- Unquoted investments are stated at cost less allowance for diminution in value. An allowance is made when there is a diminution in value which is other than temporary.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the revenue account.

All investments in debt and equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

- (a) the recognition of an asset on the day it is received by the entity, and
- (b) the derecognition on an asset and recognition of any gain or loss on disposal on the date is delivered.

(d) Investment property

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use. Properties that are occupied by the Company are accounted for as owner-occupied and accounted for as the property, plant and equipment as disclosed in Note 3(a). Investment properties are stated at cost less any accumulated depreciation and any impairment losses. Depreciation is charged to the revenue account. Freehold land is not depreciated.

(e) Loans

Loans which consist of mortgage loans and other secured loans are stated at cost.

(f) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established. Receivables are not held for the purpose of trading.

Subsequent to initial recognition, 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.

3. Significant accounting policies (continued)

(g) Cash and cash equivalents

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

(h) Impairment of assets

The carrying amount of assets except for financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the revenue account. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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. Reversals of impairment losses are credited to the revenue account in the year in which the reversals are recognised.

3. Significant accounting policies (continued)

(i) Employee benefits

(i) *Short term employee benefits*

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

The Company's contribution to the Employees' Provident Fund is charged to the revenue account in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(ii) *Defined benefit plan*

The Company's net obligation in respect of defined benefit retirement 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. Any unrecognised past service costs and the fair value of the plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds or government bonds that have maturity date approximating the terms of the Company's obligation and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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.

The latest actuarial valuation was carried out in June 2008.

3. Significant accounting policies (continued)

(j) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

(k) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(l) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account inter alia 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, while inwards facultative reinsurance premiums are recognised on inception date.

3. Significant accounting policies (continued)

(I) General insurance underwriting results (continued)

Unearned Premium Reserve

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

In determining the UPR at balance sheet date, the methods that most accurately reflects the actual unearned premium are used and are as follows:

- (i) 25% method for Malaysian marine 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 incurred but not reported at balance sheet date, using a mathematical method of estimation as determined by independent external actuarial valuation.

In projecting the ultimate claim liabilities for the current year, the Actuary has used a confidence level of 75%, which is higher than the confidence level of 65% used in the prior year. The higher confidence level is used to meet the requirement of the new risk based capital framework issued by Bank Negara Malaysia which will come into effect on 1 January 2009. As a result of this, the net claim incurred amount for the year in the revenue account is higher by approximately RM60 million.

The estimation of the provision for outstanding claims involves projection of the Company's future claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience.

These uncertainties arise from possible inaccuracies in the data, the scarcity of the data, changes in underlying risks, changes in spread of reporting and settlement of claims, as well as uncertainties in the projection model and underlying assumptions.

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.

3. 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) Tax expense

Tax expense comprises current and deferred tax. Tax expense 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 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 recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences in relation to the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit/loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (continued)

(o) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency are retranslated to the functional currency at the exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in the revenue account.

(p) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

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4. Property, plant and equipment

<i>Cost</i>	Freehold land RM'000	Long term 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	Under construction RM'000	Total RM'000
At 1 July 2006	15,859	34,019	141,437	15,527	47,430	94,350	12,374	3,215	364,211
Effect of adopting FRS 117	-	(34,019)	-	-	-	-	-	-	(34,019)
At 1 July 2006, restated	15,859	-	141,437	15,527	47,430	94,350	12,374	3,215	330,192
Additions	-	-	-	56	1,483	6,745	471	6,285	15,040
Disposals	-	-	-	-	(35)	(25)	(885)	-	(945)
Written off	-	-	-	-	-	(1,651)	-	-	(1,651)
Reclassification	-	-	-	401	18	21	-	(440)	-
At 30 June 2007/1 July 2007, restated	15,859	-	141,437	15,984	48,896	99,440	11,960	9,060	342,636
Additions	1,219	-	5	122	979	4,736	2,104	2,495	11,660
Disposals	-	-	-	(139)	(228)	(23)	(265)	-	(655)
Written off	-	-	-	(45)	(192)	(1,484)	(24)	-	(1,745)
Reclassification	130	-	6,831	-	4,134	442	-	(11,537)	-
At 30 June 2008	17,208	-	148,273	15,922	53,589	103,111	13,775	18	351,896

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4. Property, plant and equipment (continued)

	Freehold land RM'000	Long term 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	Under construction RM'000	Total RM'000
<i>Depreciation</i>									
At 1 July 2006	-	1,596	15,516	9,529	24,057	46,765	8,402	-	105,865
Effect of adopting FRS 117	-	(1,596)	-	-	-	-	-	-	(1,596)
At 1 July 2006, restated	-	-	15,516	9,529	24,057	46,765	8,402	-	104,269
Depreciation for the year	-	-	2,829	1,283	4,407	8,495	1,293	-	18,307
Disposals	-	-	-	-	(2)	(6)	(859)	-	(867)
Written off	-	-	-	-	-	(669)	-	-	(669)
At 30 June 2007/1 July 2007, restated	-	-	18,345	10,812	28,462	54,585	8,836	-	121,040
Depreciation for the year	-	-	2,908	1,137	4,518	22,181	1,391	-	32,135
Disposals	-	-	-	(138)	(223)	(24)	(256)	-	(641)
Written off	-	-	-	(41)	(172)	(458)	(23)	-	(694)
At 30 June 2008	-	-	21,253	11,770	32,585	76,284	9,948	-	151,840
<i>Carrying amounts</i>									
At 1 July 2006, restated	15,859	-	125,921	5,998	23,373	47,585	3,972	3,215	225,923
At 30 June 2007/1 July 2007, restated	15,859	-	123,092	5,172	20,434	44,855	3,124	9,060	221,596
At 30 June 2008	17,208	-	127,020	4,152	21,004	26,827	3,827	18	200,056

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4. Property, plant and equipment (continued)

Change in estimates

During the year ended 30 June 2008, the Company conducted an operational efficiency review on the Company's computers. The expected usage life of computers, which management previously estimated to be 10 years, is now reduced to 5 years. The effect of this change on depreciation expense, is as follows:

	2008	2009	2010	2011	2012 and later
	RM'000	RM'000	RM'000	RM'000	RM'000
Increase / (decrease) in depreciation expense	<u>13,455</u>	<u>3,589</u>	<u>602</u>	<u>(2,903)</u>	<u>(14,743)</u>

5. Prepaid lease payments

	2008 RM'000	2007 RM'000 (restated)
<i>Cost</i>		
At 1 July	34,019	-
Effect of adopting FRS 117	-	34,019
At 30 June	<u>34,019</u>	<u>34,019</u>
<i>Amortisation</i>		
At 1 July	2,015	-
Effect of adopting FRS 117	-	1,596
At 30 June	<u>2,015</u>	<u>1,596</u>
Amortisation for the year	419	419
At 30 June	<u>2,434</u>	<u>2,015</u>
<i>Carrying amounts</i>		
At 30 June	<u>31,585</u>	<u>32,004</u>
<i>Included in the above are:</i>		
Leasehold land with unexpired period less than 50 years	189	-
Leasehold land with unexpired period more than 50 years	<u>31,396</u>	<u>32,004</u>
	<u>31,585</u>	<u>32,004</u>

6. Investments in debt and equity securities

	2008		2007	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Malaysian Government Securities	71,262		71,262	
Amortisation of premiums, net of accretion of discounts	<u>(775)</u>		<u>(748)</u>	
	<u>70,487</u>		<u>70,514</u>	
Cagamas Bonds	<u>17,000</u>		<u>47,000</u>	
Zero Coupon Government Guaranteed Bonds	3,977		3,977	
Accretion of discounts	<u>978</u>		<u>770</u>	
	<u>4,955</u>		<u>4,747</u>	
Government Investment Issues	31,505		31,505	
Accretion of discounts, net of amortisation of premiums	<u>340</u>		<u>251</u>	
	<u>31,845</u>		<u>31,756</u>	
Government Guaranteed Bonds	59,808		59,808	
Accretion of discounts	<u>129</u>		<u>34</u>	
	<u>59,937</u>		<u>59,842</u>	
Negotiable Instrument of Deposits	30,000		30,000	
Allowance for diminution in value	<u>(2,547)</u>		<u>(162)</u>	
	<u>27,453</u>		<u>29,838</u>	

6. Investments in debt and equity securities (continued)

	2008		2007	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Quoted in Malaysia:				
Shares of corporations	222,782		231,344	
Allowance for diminution in value	(23,109)		-	
	<u>199,673</u>	<u>199,981</u>	<u>231,344</u>	<u>264,830</u>
Unit trusts				
Allowance for diminution in value	134,294		92,047	
	(583)		-	
	<u>133,711</u>	<u>133,711</u>	<u>92,047</u>	<u>94,313</u>
Unquoted in Malaysia:				
Secured corporate debt securities	5,000		10,098	
Amortisation of premiums, net of accretion of discounts	-		(12)	
	<u>5,000</u>		<u>10,086</u>	
Unsecured corporate debt securities	657,528		599,000	
Amortisation of premiums, net of accretion of discounts	(3,627)		(3,132)	
	<u>653,901</u>		<u>595,868</u>	
Secured short term loans				
- Performing loans	8,256		8,590	
- Non-performing loan	6,000		6,000	
	<u>14,256</u>		<u>14,590</u>	

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6. Investments in debt and equity securities (continued)

	2008		2007	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Shares of corporation	<u>1,430</u>		<u>1,430</u>	
Fixed and call deposits with:				
Licensed banks	299,059		414,112	
Other financial institutions	<u>90,017</u>		<u>75,326</u>	
	<u>389,076</u>		<u>489,438</u>	
Total investments	<u>1,608,724</u>		<u>1,678,500</u>	

Details of disposal of investments in debt and equity securities stated at cost are as follows:

	2008 RM'000	2007 RM'000
Proceeds from disposal	599,019	601,971
Carrying amount of investments in debt and equity securities disposed	(562,143)	(495,087)
Gain on disposal of investments in debt and equity securities	<u>36,876</u>	<u>106,884</u>

7. Investment property

	2008		2007	
	Cost RM'000	Fair Value RM'000	Cost RM'000	Fair Value RM'000
Freehold land	<u>7,500</u>	<u>7,713</u>	<u>7,500</u>	<u>7,713</u>

The fair value of the investment property is the estimated market value of the property derived using the market value of properties in the vicinity and past transaction prices.

7. Investment property (continued)

The following are recognised in the revenue account in respect of investment property:

	2008 RM'000	2007 RM'000
Rental income	60	78
Direct operating expenses	(31)	(31)
	<u>29</u>	<u>47</u>

8. Loans (secured)

	2008 RM'000	2007 RM'000
Mortgage loans	13,451	17,593
Other loans	20	33
Interest-in-suspense	(2)	(1)
	<u>18</u>	<u>32</u>
	<u>13,469</u>	<u>17,625</u>

9. Receivables, deposits and prepayments

	2008 RM'000	2007 RM'000
<i>Trade</i>		
Outstanding premium including agents/brokers and co-insurers balances	62,431	60,164
Allowance for doubtful debts	(29,124)	(29,728)
	<u>33,307</u>	<u>30,436</u>
Amount due from reinsurers/ceding companies	21,599	16,697
Allowance for doubtful debts	(9,584)	(9,850)
	<u>12,015</u>	<u>6,847</u>
<i>Non-trade</i>		
Other receivables, deposit and prepayments	27,357	30,595
Income due and accrued	12,918	16,329
Loan stock of a statutory body	200	200
	<u>40,475</u>	<u>47,124</u>
	<u>85,797</u>	<u>84,407</u>

9. Receivables, deposits and prepayments (continued)

Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments was an amount of RM9,841,000 (2007- RM15,341,000) relating to proceeds receivable for the disposal of certain quoted shares of corporation. The amount was fully received subsequent to the financial year end.

10. Cash and cash equivalents

	2008 RM'000	2007 RM'000
Cash and bank balances	<u>34,607</u>	<u>37,493</u>

11. Provision for outstanding claims

	2008 RM'000	2007 RM'000
Provision for outstanding claims	1,568,086	1,304,396
Recoverable from reinsurers thereon	<u>(138,705)</u>	<u>(92,644)</u>
Net outstanding claims	<u>1,429,381</u>	<u>1,211,752</u>

12. Payables and accruals

	2008	2007
	RM'000	RM'000
<i>Trade</i>		
Amount due to reinsurers/ceding companies and co-insurers balance	13,423	11,203
Amount due to agents/brokers and insureds	3,344	3,697
	<u>16,767</u>	<u>14,900</u>
<i>Non-trade</i>		
Performance bond deposits	10,821	10,101
Accrued expenses and deposits	5,125	4,829
Advance premium	8,202	9,583
Other payables	15,511	23,214
Amount due to holding company	1,207	20
	<u>40,866</u>	<u>47,747</u>
	<u><u>57,633</u></u>	<u><u>62,647</u></u>

13. Retirement benefits

The movement in the present value of the defined benefit obligation recognised in the Balance Sheet are as follows:

	2008	2007
	RM'000	RM'000
Defined benefit obligations at 1 July	13,774	11,881
Transfer to holding company	(1,132)	-
Benefits paid	(428)	(685)
Current service costs and interest (see below)	3,247	2,578
	<u>15,461</u>	<u>13,774</u>

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13. Retirement benefits (continued)

	2008 RM'000	2007 RM'000
Present value of unfunded obligation	<u>15,461</u>	<u>13,774</u>
Recognised liability for defined benefit obligation	<u>15,461</u>	<u>13,774</u>
Expense recognised in the revenue account as retirement benefits (Note 21):		
	2008 RM'000	2007 RM'000
Current service cost	2,461	1,575
Interest cost	786	966
Actuarial loss	-	37
	<u>3,247</u>	<u>2,578</u>

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted average):

	2008 RM'000	2007 RM'000
Discount rate at 30 June	6.00%	7.00%
Future salary increases	<u>6.00%</u>	<u>6.00%</u>

13. Retirement benefits (continued)

The discount rate used is based on market yields at the balance sheet date on high quality corporate bonds. The amount and terms of the corporate bonds are consistent with the current and estimated future of the post employment benefit obligation.

Assumption regarding future mortality is based on the experience of Malaysian insured lives between 1983 and 1988 with allowance for improvement in mortality rates allowed for by applying a 25% reduction to the standard rate. The average life expectancy of an individual retiring at age 56 years is 13.07 years.

Calculation of the unfunded defined retirement benefits involves the projection of the present value for unfunded obligations using certain principal actuarial assumptions such as the rate of interest at which to discount the future retirement benefits payments at the valuation date and the assumed rate of growth of liabilities, namely the rate of salary escalation. There are elements of uncertainty on the assumptions used and thus the projected future retirement benefits payable may be different from the actual retirement benefit paid.

Under the scheme, eligible employees who have completed a minimum of 10 years of service is entitled to retire at 56 years of age or optional retirement age of 50 years. Employees who leave before the attainment of the normal retirement age or optional retirement age, are not entitled to the benefit.

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	7,713	11,358	7,713	11,358
Provisions	7,713	4,726	-	331	(7,713)	(4,395)
Other items	-	9	-	-	-	(9)
	<u>7,713</u>	<u>4,735</u>	<u>7,713</u>	<u>11,689</u>	<u>-</u>	<u>6,954</u>

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14. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	At 1.7.2007 RM'000	Recognised in income statement (Note 18) RM'000	At 30.6.2008 RM'000	Recognised in income statement (Note 18) RM'000	At 30.6.2008 RM'000
Property, plant and equipment	12,548	(1,190)	11,358	(3,645)	7,713
Provisions	(2,659)	(1,736)	(4,395)	(3,318)	(7,713)
Other items	34	(43)	(9)	9	-
	<u>9,923</u>	<u>(2,969)</u>	<u>6,954</u>	<u>(6,954)</u>	<u>-</u>

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2008 RM'000	2007 RM'000
Provisions	(13,932)	-
Unutilised capital allowance carry-forwards	(11,282)	-
Unutilised tax losses carry-forwards	(242,831)	-
Other items	(7)	-
	<u>(268,052)</u>	<u>-</u>

Deferred tax assets have not been recognised in respect of these items because the availability of future taxable profit against which the Company can utilise the benefits there from cannot be clearly determined at this stage.

15. Unearned premium reserves

	Fire	Motor	Marine, Aviation & Transit	Miscel- laneous	Total
2008	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2007	5,924	421,622	1,287	19,743	448,576
(Decrease)/Increase during the year	(366)	(20,762)	(59)	13,768	(7,419)
At 30 June 2008	<u>5,558</u>	<u>400,860</u>	<u>1,228</u>	<u>33,511</u>	<u>441,157</u>
2007					
At 1 July 2006	5,278	425,740	1,077	15,881	447,976
(Decrease)/Increase during the year	646	(4,118)	210	3,862	600
At 30 June 2007	<u>5,924</u>	<u>421,622</u>	<u>1,287</u>	<u>19,743</u>	<u>448,576</u>

16. Share capital

	No. of shares '000	2008 RM'000	No. of shares '000	2007 RM'000
Authorised:				
Ordinary shares of RM1 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 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

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17. Operating revenue

	2008	2007
	RM'000	RM'000
Gross premium	1,081,897	1,096,376
Investment income (Note 23)	80,628	73,473
	<u>1,162,525</u>	<u>1,169,849</u>

18. Tax expense

Recognised in the income statement

	2008	2007
	RM'000	RM'000
Current tax expense		
Malaysian - current	-	11,636
- under/(over) provision in prior years	(5,607)	2,428
	<u>(5,607)</u>	<u>14,064</u>
Deferred tax expense		
Origination and reversal of temporary differences	(6,683)	(2,040)
Effect of change in tax rate	(271)	(269)
Over provision in prior years	-	(660)
	<u>(6,954)</u>	<u>(2,969)</u>
Total tax expense	<u>(12,561)</u>	<u>11,095</u>

18. Tax expense (continued)

Reconciliation of tax expense

	2008 RM'000	2007 RM'000
(Loss) / Profit before tax	<u>(307,780)</u>	<u>16,343</u>
Income tax using Malaysian tax rates of 26% (2007:27%)	(80,023)	4,413
Effect of change in tax rate	(271)	(269)
Non-deductible expenses	4,643	6,205
Tax exempt income	(1,657)	(1,022)
Effect of deferred tax assets not recognised	69,694	-
Others	<u>660</u>	<u>-</u>
	(6,954)	9,327
(Over)/Under provision in prior years	<u>(5,607)</u>	<u>1,768</u>
	<u>(12,561)</u>	<u>11,095</u>

With effect from year of assessment 2008, the corporate tax rate is at 26%. The Malaysian Budget 2007 also announced the reduction of corporate tax rate to 25% in 2009. Consequently, deferred tax assets and liabilities are measured using these tax rates.

19. Basic earnings per ordinary share

Basic earnings per ordinary share is calculated based on the loss for the year of RM295,219,000 (2007 - profit for the year of RM5,248,000) divided by the number of ordinary shares in issue of 200,000,000 (2007 - 200,000,000) during the year.

20. Net claims incurred

2008		Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscel- laneous RM'000	Total RM'000
Gross claims paid less salvage		16,300	877,278	4,399	27,734	925,711
Reinsurance recoveries		(8,958)	(52,290)	(1,158)	(5,553)	(67,959)
Net claims paid	(a)	7,342	824,988	3,241	22,181	857,752
Net outstanding claims:						
At 30 June 2008	(b)	9,169	1,382,982	6,901	30,329	1,429,381
At 1 July 2007	(c)	9,456	1,177,532	5,606	19,158	1,211,752
Net claims incurred	(a+b-c)	7,055	1,030,438	4,536	33,352	1,075,381

2007		Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscel- laneous RM'000	Total RM'000
Gross claims paid less salvage		13,816	653,354	5,007	23,569	695,746
Reinsurance recoveries		(6,368)	(45,614)	(1,124)	(7,068)	(60,174)
Net claims paid	(a)	7,448	607,740	3,883	16,501	635,572
Net outstanding claims:						
At 30 June 2007	(b)	9,456	1,177,532	5,606	19,158	1,211,752
At 1 July 2006	(c)	6,479	940,592	5,968	19,929	972,968
Net claims incurred	(a+b-c)	10,425	844,680	3,521	15,730	874,356

21. Management expenses

	2008	2007
	RM'000	RM'000
Personnel expenses (including key management personnel):		
Contribution to Employees Provident Fund	8,533	9,778
Expenses related to defined benefit plan	3,247	2,578
Wages, salaries and others	87,933	97,971
Auditors' remuneration		
Current year	190	190
Prior year	80	-
Rental of offices and premises	900	1,020
Depreciation of property, plant and equipment	32,135	18,307
Amortisation of prepaid lease payments	419	419
Allowance for doubtful debts written back	(870)	(3,283)
Bad debts written off	1,467	2,225
Bad debts recovered	(328)	(314)
IGSF levies	2,700	2,736
Advertisement expenses	13,944	13,980
Bank charges	11,211	11,686
Other expenses	67,943	52,278
	<u>229,504</u>	<u>209,571</u>

22. Key management personnel compensation

The key management personnel compensation are follows:

	2008	2007
	RM'000	RM'000
Executive Directors		
Remuneration	932	1,196
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	57	66
	<u>989</u>	<u>1,262</u>
Non-Executive Directors		
Fees	519	486
Remuneration	3,405	4,944
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	1,133	1,223
	<u>5,057</u>	<u>6,653</u>
Other key management personnel:		
Short-term employee benefits	947	2,065
	<u>6,993</u>	<u>9,980</u>

Other key management personnel comprises persons other than the Directors of the Company, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

The Company provides non-cash benefits to Executive Directors and other key management personnel. The estimated non-cash benefits received by Executive Directors and key management personnel amounted to RM55,000 (2007: RM66,000) and RM30,000 (2007:RM61,000) respectively.

In addition to their non-cash benefits, Executive Directors and other key management personnel are also eligible to the Company's retirement benefits as disclosed in Note 13.

Included in the total short-term employee benefits of the Executive Directors is the remuneration (including non-cash benefits) attributable to the CEO of the Company of RM489,000 (2007:RM606,000).

23. Investment income

	2008	2007
	RM'000	RM'000
Interest income from:		
Malaysian Government Securities	3,606	3,371
Cagamas Bonds	1,477	4,391
Unquoted corporate debt securities	33,956	28,831
Secured short term loans		
- Performing loans	792	876
Government Investment Issues	1,052	554
Government Guaranteed Bonds	2,155	617
Negotiable Instrument of Deposits	778	2,847
Fixed and call deposits	18,891	17,335
Gross dividends from:		
Quoted shares in Malaysia	13,567	12,999
Quoted unit trusts in Malaysia	5,658	1,523
Unquoted shares in Malaysia	220	221
Amortisation of premiums, net of accretion of discounts	(1,524)	(92)
	<u>80,628</u>	<u>73,473</u>

24. Other income

	2008	2007
	RM'000	RM'000
Other interest income	736	952
Sundry income	1,141	1,258
Gain on disposal of investments in debt and equity securities	36,876	106,884
Gain on disposal of property, plant and equipment	95	-
Write back of allowance for diminution in value		
of investment in quoted shares of corporations and unit trust	-	381
	<u>38,848</u>	<u>109,475</u>

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25. Other expenses

	2008	2007
	RM'000	RM'000
Written off of property, plant and equipment	1,051	982
Allowance for diminution in value of investments in Negotiable Instrument of Deposits	2,385	145
Allowance for diminution in value of investments in quoted shares of corporations and unit trusts	23,692	-
Loss on disposal of property, plant and equipment	-	7
	<u>27,128</u>	<u>1,134</u>

26. Dividend

The Directors do not recommend any dividend to be paid for the financial year ended 30 June 2008.

Dividend recognised in the prior year by the Company are:

	Sen	Total	Date of
	per share	amount	payment
2007	(net of tax)	RM'000	
Final 2006 ordinary	<u>10</u>	<u>20,000</u>	<u>9 November 2006</u>

27. Capital and other commitments

Capital expenditure and other commitments approved by the Directors but not provided for in the financial statements as at 30 June 2008 amounted to approximately:

	2008	2007
	RM'000	RM'000
Property, plant and equipment		
Contracted but not provided for	<u>10,008</u>	<u>9,255</u>
Other commitments		
Consultancy fees payable to third party	<u>-</u>	<u>18,906</u>

28. Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or whether the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company, and certain members of senior management of the Company.

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28. Related parties (continued)

The significant related parties transactions and balances of the Company, other than key management personnel compensation, are as follows:

	2008		2007	
	Transaction amount RM'000	Balance outstanding RM'000	Transaction amount RM'000	Balance outstanding RM'000
Holding company				
Sharing of common expenses paid	7,901	75	10,417	20
Retirement expenses transferred	-	(1,132)	-	-
A company in which Dato' Low Heong Chow @ Loh Heong Chow and Tan Sri Dato' Kua Sian Kooi are a common directors and Tan Sri Dato' Kua Sian Kooi has direct interest:				
Reinsurance inwards premium	(181)	(50)	(222)	(45)
Reinsurance inwards claims	-	-	76	-
A company in which Dato' Wira Othman Abdul is a common director and Tan Sri Dato' Kua Sian Kooi has indirect interest:				
Air ticket and tour services paid	1,872	17	1,971	28
Advertisement expenses	-	-	3,242	-
Rental income	36	-	39	-
A company in which Tan Sri Kua Sian Kooi and Dato' Quah Teong Moo are common director and have interest:				
Rental expenses	108	-	81	-
A company in which Tan Sri Dato' Kua Sian Kooi is a common director and has direct interest:				
Purchase of motor vehicle	-	-	425	425

The terms and conditions of the above transactions are based on normal trade terms.

29. 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 these 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.

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 the exposure to credit risk is monitored on an ongoing basis. Investments are made based on appropriate evaluations and 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 of 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 stock brokers in respect of proceeds from investment disposals that represents approximately 24% (2007 - 33%) of other receivables, deposits and prepayments as at balance sheet date.

29. Financial instruments (continued)

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 risk, 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 estimated 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 Investment Committee Members.

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29. Financial instruments (continued)

(b) Average effective interest rates and repricing analysis

In respect of interest-earning financial assets, the following table indicates their average effective interest rates at balance sheet date and the periods in which they mature, or if earlier, reprice.

2008	Average effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	After 5 years RM'000
Fixed rate instruments								
Malaysian Government Securities	5.02	70,487	26,043	-	-	15,002	-	29,442
Cagamas Bonds	5.62	17,000	-	-	1,000	-	1,000	15,000
Zero Coupon Government								
Guaranteed Bonds	4.72	4,955	4,955	-	-	-	-	-
Government Investment Issues	3.60	31,845	27,053	4,792	-	-	-	-
Government Guaranteed Bonds	3.76	59,937	39,964	-	-	4,973	-	15,000
Unquoted secured corporate debt securities	4.43	5,000	-	-	-	-	-	5,000
Unquoted unsecured corporate debt securities	5.22	653,901	24,965	65,344	171,018	76,225	147,554	168,795
Secured short term loans								
Performing loans	9.25	8,256	2,166	1,500	2,000	2,590	-	-
Non-performing loan	-	6,000	6,000	-	-	-	-	-
Fixed and call deposits	3.80	389,076	377,076	12,000	-	-	-	-
Mortgage loans	4.00	7,222	632	543	528	513	494	4,512
Floating rate instrument								
Negotiable Instrument of Deposits	6.19	27,453	-	-	-	27,453	-	-
Mortgage loans	4.58	6,229	6,229	-	-	-	-	-

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29. Financial instruments (continued)

2007

Financial assets	Average effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	After 5 years RM'000
Fixed rate instruments								
Malaysian Government Securities	5.02	70,514	-	26,138	-	-	15,003	29,373
Cagamas Bonds	5.08	47,000	5,000	10,000	-	1,000	-	31,000
Zero Coupon Government Guaranteed Bonds	4.72	4,747	-	4,747	-	-	-	-
Government Investment Issues	3.60	31,756	-	27,120	4,636	-	-	-
Government Guaranteed Bonds	3.76	59,842	-	39,877	-	-	4,965	15,000
Unquoted secured corporate debt securities	4.10	10,086	-	-	10,086	-	-	-
Unquoted unsecured corporate debt securities	5.20	595,868	32,067	50,181	71,153	155,978	81,687	204,802
Secured short term loans								
Performing loans	9.25	8,590	1,000	1,500	1,500	2,000	2,590	-
Non-performing loan	-	6,000	6,000	-	-	-	-	-
Fixed and call deposits	3.86	489,438	312,395	177,043	-	-	-	-
Mortgage loans	4.00	9,152	790	667	633	602	545	5,915
Floating rate instruments								
Negotiable Instrument of Deposits	8.00	29,838	-	-	-	-	29,838	-
Mortgage loans	5.75	8,441	8,441	-	-	-	-	-

29. Financial instruments (continued)

(c) Fair value

Recognised financial instruments

The carrying amounts of financial instruments in respect of cash and bank balances, receivables, deposits and prepayments and payables and accruals 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, Zero Coupon Government Guaranteed Bonds, Government Investment Issues and 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 closing market prices as at balance sheet date;
- The estimated fair values of unquoted secured and unsecured corporate debt securities are based on the average indicative market yields obtained from three financial institutions which involve projections of the market yields based on past transactions. There are elements of uncertainty in projecting the expected market yields and these uncertainties arise from changes in underlying risk and overall economic conditions. As such, the projected market yield may be different from its actual market yields in future;
- The fair value of Negotiable Instrument of Deposits is based on quoted market price as determined by the issuer at balance sheet date;
- The carrying amount of secured short term loans 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 and fixed rate 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 2008, the estimated fair values of the loans approximate their carrying values.

It was not practical to estimate the fair value of the Company's investment in unquoted shares of corporations due to the lack of comparable quoted market price and the inability to estimate fair value without incurring excessive costs.

29. Financial instruments (continued)

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

	2008		2007	
	Carrying amount RM'000	Fair Value RM'000	Carrying amount RM'000	Fair Value RM'000
Investments in debt and securities				
- Malaysian Government Securities	70,487	70,288	70,514	74,224
- Cagamas Bonds	17,000	16,969	47,000	51,451
- Zero Coupon Government Guaranteed Bonds	4,955	4,959	4,747	4,786
- Government Investment Issues	31,845	31,719	31,576	31,799
- Government Guaranteed Bonds	59,937	59,260	59,842	59,886
- Negotiable Instrument of Deposits	27,453	27,453	29,838	29,838
- Unquoted secured corporate debt securities	5,000	4,640	10,086	10,160
- Unquoted unsecured corporate debt securities	653,901	640,644	595,868	610,088
- Secured short term loans				
Performing loans	8,256	8,256	8,590	8,590
Non performing loan	6,000	6,000	6,000	6,000
- Fixed and call deposits	389,076	389,076	489,438	489,438
- Quoted shares of corporations	199,673	199,981	231,344	264,830
- Quoted unit trusts	133,711	133,711	92,047	94,313
Loans				
- Mortgage loans	13,451	13,451	17,593	17,593

30. Subsequent event

On 10 September 2008, the Company executed a deed poll, pursuant to which the Company had agreed to issue up to RM400,000,000 nominal value irredeemable convertible subordinated debt (“ICSD”) by means of a rights issue to its holding company, Kurnia Asia Berhad (“KAB”). Consequently, on even date, the Company also entered into a subscription agreement with KAB, pursuant to which KAB will subscribe for up to RM400,000,000 nominal value of the said ICSD.

The subscription proceeds received by the Company from the issuance of the ICSD were utilised to meet the solvency margin requirements of KIMB and simultaneously to fulfill the requirements of the new risk based capital framework issued by Bank Negara Malaysia which will come into effect on 1 January 2009. The ICSD shall have a tenure of 5 years from the date of issuance, and bears interest at the rate of 1.5% per annum above the cost of fund of CIMB Bank Berhad or such other amended rates.

The ICSD shall be convertible into fully paid ordinary shares of the Company at the conversion price of RM1.00 per ordinary share (“Conversion Price”) at any time during the tenure of the ICSD. All ICSD not converted during the tenure of the ICSD shall be automatically converted on the maturity date. On 19 September 2008, the Company issued RM400,000,000 nominal value of ICSD to KAB, and on even date, RM170,000,000 nominal value of ICSD was converted into ordinary shares of the Company at the Conversion Price.

31. Margin of solvency requirement

Pursuant to the Insurance Act, 1996 and Insurance Regulations, 1996, the Company is required to maintain at all times, an absolute minimum amount of margin of solvency for its general insurance business. As at 30 June 2008, the general insurance business did not comply with the said requirement and recorded a shortfall of RM264,094,547.

To regularise this deficit position, the Company issued RM400,000,000 nominal value ICSD by means of a rights issue to its holding company, KAB on 19 September 2008.

Company No. 44191-P

32. Comparative figures

The following comparative figures have been restated as a result of the adoption of FRS 117, Leases:

	As Restated RM'000	As Previously stated RM'000
Balance sheet		
Property, plant and equipment	221,596	253,600
Prepaid lease payments	32,400	-
	<u>254,000</u>	<u>253,600</u>
Revenue account		
Depreciation of property, plant and equipment	18,307	18,726
Amortisation of prepaid lease payments	419	-
	<u>18,726</u>	<u>18,726</u>

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 8 to 56 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Company at 30 June 2008 and of the results of its operations and cash flows for the year then ended on that date.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tan Sri Dato' Kua Sian Kooi

Chia Ah Kow

Petaling Jaya, Selangor

Date: 29 September 2008

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

**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 8 to 56 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya, Selangor on 29 Sep 2008

San Chee Kit

Before me:

Haji Muhammad Bin Haron

S.M.S., A.M.N.

Commissioner for Oaths

Independent auditors' report to the members of Kurnia Insurans (Malaysia) Berhad

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

Report on the Financial Statements

We have audited the financial statements of Kurnia Insurans (Malaysia) Berhad, which comprise the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 56.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Company No. 44191-P

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 30 June 2008 and of its financial performance and cash flows for the year then ended.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 31 to the financial statements. The Company has recorded a Margin of Solvency deficit as of 30 June 2008 of RM264,094,547. To regularise this deficit position, the Company issued RM400,000,000 nominal value irredeemable convertible subordinated debt ("ICSD") by means of a rights issue to its holding company, Kurnia Asia Berhad.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong

Approval Number: 2613/12/08(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 29 September 2008