



**Kurnia Insurans (Malaysia) Berhad**

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

**Financial statements for the year  
ended 30 June 2009**

**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 2009**

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# **Kurnia Insurans (Malaysia) Berhad**

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

## **Directors' report for the year ended 30 June 2009**

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2009.

### **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.

### **Change of financial year**

Subsequent to year end, the Company changed its financial year end to 31 December, to be co-terminous with its holding company. Accordingly, the next financial statement will be for the six-month period ending 31 December 2009.

### **Results**

	<b>RM'000</b>
Profit for the year	84,137 =====

### **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 2009.

### **Reserves and provisions**

There were no material transfers to or from reserves and provisions during the financial year.

### **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 method 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 liability 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 substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent liability and other liability do not include liability 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 loss on disposal of investments and write back of allowance for diminution in value of investments in quoted shares and unit trusts as disclosed in Note 25 and Note 26, the results of the operations of the Company for the financial year ended 30 June 2009 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**

During the financial year, the Company increased its authorised ordinary share capital from 300,000,000 to 600,000,000.

During the financial year, the Company issued 170,000,000 new ordinary shares of RM1 each, arising from the conversion of irredeemable convertible subordinated debt (“ICSD”) at a conversion price of RM1 per ordinary share.

## **Issue of irredeemable convertible subordinated debt (“ICSD”)**

On 10 September 2008, the Company executed a deed poll, pursuant to which the Company 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 its solvency margin requirements and simultaneously to fulfill the new risk based capital framework issued by Bank Negara Malaysia which came 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 at the discretion of the ICSD holder.

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.

## **Issue of irredeemable convertible subordinated debt (“ICSD”) (continued)**

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.

## **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 nine 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 four non-executive Directors and one executive Director, ensuring that issues are considered with independence and objectivity.

### *ii) Management accountability*

The Company has an organisational structure that is appropriately documented and 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.

## **Statement on corporate governance and internal controls (continued)**

### ***iii) Corporate independence***

All material related party transactions have been disclosed in Note 29 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 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 Financial Reporting Standard ("FRS").

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## Statement on corporate governance and internal controls (continued)

### Directors of the Company

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

Tan Sri Dato' Paduka Kua Sian Kooi  
 Datuk Mohd Saufi Bin Abdullah  
 Chia Ah Kow  
 Paul Frankland  
 Raymond Fam Chye Soon (appointed on 23 September 2008)  
 Lian Gee Meng (appointed on 9 September 2009)  
 Dato' Low Heong Chow @ Loh Heong Chow (resigned on 1 November 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' Paduka Kua Sian Kooi and Datuk Mohd Saufi Bin Abdullah, 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 1.7.2008	Bought	Sold	At 30.6.2009
Direct interest in the holding company, Kurnia Asia Berhad:				
Chia Ah Kow	-	2,000,000	-	2,000,000

Other than the above, none of the other directors holding office at 30 June 2009 had any interest in the ordinary shares of the Company and of 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 29 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 or debentures of 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.

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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' Paduka Kua Sian Kooi**

**Chia Ah Kow**

Petaling Jaya, Selangor

Date: 5 October 2009

# Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

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## Balance sheet as at 30 June 2009

	Note	2009 RM'000	2008 RM'000
<b>Assets</b>			
Property, plant and equipment	4	181,330	200,056
Prepaid lease payments	5	31,166	31,585
Investments in debt and equity securities	6	1,846,914	1,608,724
Investment property	7	7,500	7,500
Deferred tax assets	8	16,000	-
Loans (secured)	9	11,348	13,469
Receivables, deposits and prepayments	10	68,801	85,797
Current tax assets		15,026	33,986
Cash and cash equivalents	11	25,982	34,607
<b>Total assets</b>		<u>2,204,067</u>	<u>2,015,724</u>
<b>Liabilities</b>			
Provision for outstanding claims	12	1,175,989	1,429,381
Payables and accruals	13	86,982	57,633
Retirement benefits	14	19,421	15,461
<b>Total liabilities</b>		<u>1,282,392</u>	<u>1,502,475</u>
<b>Insurance reserves</b>			
Unearned premium reserves	15	<u>381,990</u>	<u>441,157</u>
<b>Shareholders' equity</b>			
Share capital	16	370,000	200,000
Irredeemable convertible subordinated debt	17	230,000	-
Accumulated losses		<u>(60,315)</u>	<u>(127,908)</u>
		<u>539,685</u>	<u>72,092</u>
<b>Total liabilities, insurance reserves and shareholders' equity</b>		<u>2,204,067</u>	<u>2,015,724</u>

The notes on pages 15 to 60 are an integral part of these financial statements.

# Kurnia Insurans (Malaysia) Berhad

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## Statement of changes in equity for the year ended 30 June 2009

		<i>Non-distributable</i>	<i>Distributable</i>	
		<b>Irredeemable convertible subordinated debts</b>	<b>(Accumulated losses)</b>	<b>Total equity</b>
Note	<b>Share capital RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 July 2007</b>	200,000	-	167,311	367,311
Loss for the year	-	-	(295,219)	(295,219)
<b>At 30 June 2008 / 1 July 2008</b>	200,000	-	(127,908)	72,092
Profit for the year	-		84,137	84,137
Interest expense on irredeemable convertible subordinated debt	27		(16,544)	(16,544)
Total recognised income and expense for the year	-	-	67,593	67,593
Irredeemable convertible subordinated debt issued	17	400,000	-	400,000
Irredeemable convertible subordinated debt converted	17	(170,000)	-	-
<b>At 30 June 2009</b>	370,000	230,000	(60,315)	539,685

The notes on pages 15 to 60 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 2009**

	Note	2009 RM'000	2008 RM'000
<b>Operating revenue</b>	18	<u>1,085,296</u>	<u>1,162,525</u>
Transfer from general insurance revenue account		<u>68,137</u>	<u>(307,780)</u>
<b>Profit / (Loss) before tax</b>		68,137	(307,780)
Tax income	19	16,000	12,561
<b>Profit / (Loss) for the year</b>		<u>84,137</u>	<u>(295,219)</u>
<b>Basic earnings per ordinary share (sen)</b>	20	<u>25</u>	<u>(148)</u>
<b>Diluted earnings per ordinary share (sen)</b>	20	<u>16</u>	<u>(148)</u>

The notes on pages 15 to 60 are an integral part of these financial statements.

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## General insurance revenue account for the year ended 30 June 2009

Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total		
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000	
Gross Premium	32,902	26,792	850,726	955,679	7,948	7,138	109,877	92,288	1,001,453	1,081,897	
Less : Reinsurance	(19,271)	(14,450)	(45,345)	(49,575)	(5,574)	(2,410)	(23,286)	(19,637)	(93,476)	(86,072)	
Net Premium	13,631	12,342	805,381	906,104	2,374	4,728	86,591	72,651	907,977	995,825	
Decrease/(Increase) in unearned premium reserves	15	(1,168)	366	59,261	20,762	645	59	429	(13,768)	59,167	7,419
Earned premium	12,463	12,708	864,642	926,866	3,019	4,787	87,020	58,883	967,144	1,003,244	
Net claims incurred	21	(6,877)	(7,055)	(598,053)	(1,030,438)	(3,200)	(4,536)	(28,459)	(33,352)	(636,589)	(1,075,381)
Net commission		(755)	(1,026)	(85,463)	(85,904)	(50)	(430)	(16,253)	(11,127)	(102,521)	(98,487)
		(7,632)	(8,081)	(683,516)	(1,116,342)	(3,250)	(4,966)	(44,712)	(44,479)	(739,110)	(1,173,868)
Underwriting surplus/(deficit) before management expenses		4,831	4,627	181,126	(189,476)	(231)	(179)	42,308	14,404	228,034	(170,624)
Management expenses	22									(206,874)	(229,504)
Underwriting surplus/(deficit)										21,160	(400,128)
Investment income	24									83,843	80,628
Other income	25									27,355	38,848
Other expenses	26									(64,221)	(27,128)
Transfer to income statement										68,137	(307,780)

The notes on pages 15 to 60 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 2009

	2009 RM'000	2008 RM'000
<b>Cash flows from operating activities</b>		
Profit/(Loss) before tax	68,137	(307,780)
Adjustments for :		
(Write back of)/Allowance for diminution in value of investments in debt and equity securities, net	(15,169)	26,077
Accretion of discounts	(520)	(1,006)
Amortisation of premiums	1,399	2,530
Amortisation of prepaid lease payments	419	419
Bad debts recovered	(600)	(328)
Bad debts written off	60	1,467
Allowance for doubtful debts written back	(1,038)	(870)
Depreciation of property, plant and equipment	22,882	32,135
Decrease in unearned premium reserves	(59,167)	(7,419)
Loss/(Gain) on disposal of investments in debt and equity securities	43,917	(36,876)
Gain on disposal of property, plant and equipment	(502)	(95)
Investment income	(84,722)	(82,152)
Retirement benefits expense	4,307	3,247
Write off of property, plant and equipment	474	1,051
Impairment loss on property plant and equipment	5,034	-
Loss from operations before changes in operating assets and liabilities	(15,089)	(369,600)
Acquisition of investments in debt and equity securities	(523,724)	(700,318)
Net proceeds from redemption and disposal of investments in debt and equity securities	456,851	684,504
Decrease in loans	2,121	4,156
(Increase)/Decrease in fixed and call deposits	(191,165)	100,362
Increase/(Decrease) in receivables, deposit and prepayments	11,571	(10,568)
(Decrease)/Increase in provision for outstanding claims	(253,392)	217,629
Increase/(Decrease) in payables and accruals	29,350	(6,146)
<b>Net cash used in operation</b>	(483,477)	(79,981)
Tax refunded	18,960	3,510
Dividend income received	12,810	19,101
Interest income received	69,135	66,463
Retirement benefits paid	(347)	(428)
<b>Net cash (used in) / from operating activities</b>	(382,919)	8,665

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## Cash flow statement for the year ended 30 June 2009

(continued)

	2009 RM'000	2008 RM'000
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(10,514)	(11,660)
Proceeds from disposal of property, plant and equipment	1,352	109
<b>Net cash used in investing activities</b>	<u>(9,162)</u>	<u>(11,551)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ICSD	400,000	-
Finance cost paid to holding company	(16,544)	-
<b>Net cash used in financing activities</b>	<u>383,456</u>	<u>-</u>
Net decrease in cash and cash equivalents	(8,625)	(2,886)
Cash and cash equivalents at 1 July	34,607	37,493
<b>Cash and cash equivalents at 30 June</b>	<u><u>25,982</u></u>	<u><u>34,607</u></u>
<b>Cash and cash equivalents comprise:</b>		
Cash and bank balances (Note 11)	<u><u>25,982</u></u>	<u><u>34,607</u></u>

The notes on pages 15 to 60 are an integral part of these financial statements.

# **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 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 5 October 2009.

### **2. Basis of preparation**

#### **(a) Statement of compliance**

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards (FRS) and Companies Act, 1965 in Malaysia, the Insurance Act, 1996, Insurance Regulations, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia in all material aspects.

## 2. Basis of preparation (continued)

### (a) Statement of compliance (continued)

The following accounting standards (including their consequential amendments) and interpretations have been issued by the Malaysian Accounting Standards Board ("MASB").

#### FRSs / Interpretations

FRSs/Interpretations	Effective date
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of and Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellation	1 January 2010
FRS 4 Insurance Contracts	1 January 2010
FRS 7 Financial Instruments : Disclosures	1 January 2010
FRS 8 Operating Segments	1 January 2010
FRS 123 Borrowing Costs	1 January 2010
FRS 139 Financial Instruments : Recognition and Measurement	1 January 2010
IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10 Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13 Customer Loyalty Programmes	1 January 2010
IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction	1 January 2010

The Company plan to apply the abovementioned standards, amendments and interpretations from the annual period beginning on 1 January 2010 except for Amendments to FRS 2, FRS 8, IC Interpretation 10 and IC Interpretation 13 which are not applicable to the Company.

The impact of applying FRS 4, FRS 7 and 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 exemptions given in the respective FRSs. The initial application of the other applicable standards (and their consequential amendments) and interpretations above is not expected to have any material impact on the financial statements of the Company.

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## **2. Basis of preparation (continued)**

### **(a) Statement of compliance (continued)**

#### Risk-Based Capital Framework for Insurers

Bank Negara Malaysia has issued detailed guidelines under the Risk-Based Capital Framework for Insurers (“the Framework”) which is effective from the annual period beginning on or after 1 January 2009. The Company will adopt the accounting policies on investments, receivables, unexpired risk and general insurance liabilities as specified in the Framework for the annual period beginning on 1 July 2009.

### **(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.

## 2. Basis of preparation (continued)

### (d) Use of estimates and judgements (continued)

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 3(m) - provision for outstanding claims (including IBNR)
- Note 8 - recognition of deferred tax assets
- Note 14 - valuation of retirement benefits
- Note 30 - fair value estimation of 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.

### (a) Property, plant and equipment

#### (i) *Recognition and measurement*

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.

### 3. Significant accounting policies (continued)

#### (a) Property, plant and equipment (continued)

##### (ii) *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.

##### (iii) *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.

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.

##### (iv) *Change in estimates*

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

#### (b) Leased assets

Leases, where the Company does not assume substantially all the risk and rewards of the ownership are classified as operating leases except for property interest held under operating lease, and the 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.

### **3. Significant accounting policies (continued)**

#### **(b) Leased assets (continued)**

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 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 carried 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, 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. The allowance for diminution in value is recognised as an expense in the revenue account in which the decline is identified.

### **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 securities are accounted for using settlement date and equity securities are accounted for using trade date. 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 to earn rental income or for capital appreciation or for both. These include land held (other than leasehold land) for a currently undetermined future use. Properties that are occupied by the Company are accounted for as owner-occupied and accounted for as 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 and deferred tax 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) Equity instruments

All equity instruments are stated at cost on initial recognition and are not remeasured subsequently.

##### (i) *Issue expenses*

Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from equity.

##### (ii) *Irredeemable convertible subordinated debt (“ICSD”)*

ICSD is classified as equity as it is non-redeemable and convertible during the tenure of the ICSD. ICSD which has not been converted will be fully converted on maturity date. Interest paid on ICSD is recognised as a distribution within equity.

#### (j) 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 contributions to the Employees’ Provident Fund are charged to the revenue account in the period 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.

### **3. Significant accounting policies (continued)**

#### **(j) Employee benefits (continued)**

##### *(ii) Defined benefit plan (continued)*

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.

#### **(k) 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.

### **3. Significant accounting policies (continued)**

#### **(l) 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.

#### **(m) 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.

##### **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 as follows:

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

### **3. Significant accounting policies (continued)**

#### **(m) General insurance underwriting results (continued)**

##### **Provision for outstanding 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.

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.

Significant uncertainties and 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. Acquisition costs which are not recoverable, in the event of a termination of the policy to which they rebate, are not deferred but are recognised in the period in which they occur.

### **3. Significant accounting policies (continued)**

#### **(n) 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.

#### **(o) 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)**

#### **(p) Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the Company at the 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 rates at the date of transactions. Foreign currency differences arising on retranslation are recognised in the revenue account.

#### **(q) 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares, which comprise convertible notes and share options granted to employees.

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#### 4. Property, plant and equipment

<i>Cost</i>	Freehold 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 2007	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 2008/1 July 2008	17,208	148,273	15,922	53,589	103,111	13,775	18	351,896
Additions	-	26	12	655	4,785	965	4,071	10,514
Disposals	(85)	(388)	-	-	(406)	(2,384)	-	(3,263)
Written off	-	-	-	(561)	(3,168)	-	-	(3,729)
Reclassification	-	18	-	-	-	-	(18)	-
At 30 June 2009	17,123	147,929	15,934	53,683	104,322	12,356	4,071	355,418

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**4. Property, plant and equipment (continued)**

	Freehold 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
<b>Depreciation</b>								
At 1 July 2007	-	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 2008/1 July 2008	-	21,253	11,770	32,585	76,284	9,948	-	151,840
Depreciation for the year	-	2,966	1,095	4,608	12,566	1,647	-	22,882
Disposals	-	(19)	-	-	(343)	(2,051)	-	(2,413)
Written off	-	-	-	(333)	(2,922)	-	-	(3,255)
At 30 June 2009	-	24,200	12,865	36,860	85,585	9,544	-	169,054
<b>Impairment</b>								
At 1 July 2008	-	-	-	-	-	-	-	-
Additions	-	1,867	577	1,974	616	-	-	5,034
At 30 June 2009	-	1,867	577	1,974	616	-	-	5,034
<b>Depreciation and impairment loss</b>								
At 1 July 2007	-	18,345	10,812	28,462	54,585	8,836	-	121,040
At 30 June 2008/1 July 2008	-	21,253	11,770	32,585	76,284	9,948	-	151,840
At 30 June 2009	-	26,067	13,442	38,834	86,201	9,544	-	174,088
<b>Carrying amounts</b>								
At 1 July 2007	15,859	123,092	5,172	20,434	44,855	3,124	9,060	221,596
At 30 June 2008/1 July 2008	17,208	127,020	4,152	21,004	26,827	3,827	18	200,056
At 30 June 2009	17,123	121,862	2,492	14,849	18,121	2,812	4,071	181,330

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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, was reduced to 5 years. The effect of this change on depreciation expense, was as follows:

	2008	2009	2010	2011	2012 and after
	RM'000	RM'000	RM'000	RM'000	RM'000
Increase/(Decrease) in depreciation expense	13,455	3,589	602	(2,903)	(14,743)

##### *Impairment of assets*

The Company performed an impairment assessment on its property, plant and equipment during the year ended 30 June 2009. As a result of the assessment, impairment loss of RM5,034,000 (2008 : Nil) was recognised in the revenue account.

#### 5. Prepaid lease payments

	2009 RM'000	2008 RM'000
<i>Cost</i>		
At 1 July / 30 June	34,019	34,019
<i>Amortisation</i>		
At 1 July	2,434	2,015
Amortisation for the year	419	419
At 30 June	2,853	2,434
<i>Carrying amounts</i>		
At 30 June	31,166	31,585
<i>Included in the above are:</i>		
Leasehold land with unexpired period less than 50 years	185	189
Leasehold land with unexpired period more than 50 years	30,981	31,396
	31,166	31,585

## 6. Investments in debt and equity securities

	2009		2008	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Malaysian Government Securities	64,705		71,262	
Accretion of discounts net of amortisation of premiums	99		(775)	
	<u>64,804</u>		<u>70,487</u>	
Cagamas Bonds	<u>47,000</u>		<u>17,000</u>	
Zero Coupon Government Guaranteed Bonds	-		3,977	
Accretion of discounts	-		978	
	<u>-</u>		<u>4,955</u>	
Government Investment Issues	4,351		31,505	
Accretion of discounts	598		340	
	<u>4,949</u>		<u>31,845</u>	
Government Guaranteed Bonds	25,018		59,808	
Accretion of discounts	16		129	
	<u>25,034</u>		<u>59,937</u>	
Negotiable Instrument of Deposits	30,000		30,000	
Allowance for diminution in value	(1,680)		(2,547)	
	<u>28,320</u>		<u>27,453</u>	

## 6. Investments in debt and equity securities (continued)

	2009		2008	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Quoted in Malaysia:				
Shares of corporations	65,961		222,782	
Allowance for diminution in value	<u>(3,132)</u>		<u>(23,109)</u>	
	62,829	62,829	199,673	199,981
Unit trusts				
Unit trusts	149,983		134,294	
Allowance for diminution in value	<u>(6,259)</u>		<u>(583)</u>	
	143,724	143,724	133,711	133,711
Unquoted in Malaysia:				
Secured corporate debt securities				
Secured corporate debt securities	10,049		5,000	
Amortisation of premiums	<u>(8)</u>		<u>-</u>	
	10,041		5,000	
Unsecured corporate debt securities				
Unsecured corporate debt securities	870,058		657,528	
Amortisation of premiums	<u>(5,106)</u>		<u>(3,627)</u>	
	864,952		653,901	
Secured short term loans				
- Performing loans	7,590		8,256	
- Non-performing loan	<u>6,000</u>		<u>6,000</u>	
	13,590		14,256	

**6. Investments in debt and equity securities (continued)**

	2009		2008	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Unquoted shares of corporation	<u>1,430</u>		<u>1,430</u>	
Fixed and call deposits with:				
Licensed banks	569,256		299,059	
Other financial institutions	<u>10,985</u>		<u>90,017</u>	
	<u>580,241</u>		<u>389,076</u>	
Total investments	<u>1,846,914</u>		<u>1,608,724</u>	

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

	2009 RM'000	2008 RM'000
Proceeds from disposal	347,589	599,019
Carrying amount of investments in debt and equity securities disposed	(391,506)	(562,143)
(Loss)/Gain on disposal of investments in debt and equity securities	<u>(43,917)</u>	<u>36,876</u>

## 7. Investment property

	2009		2008	
	Cost RM'000	Fair Value RM'000	Cost RM'000	Fair Value RM'000
Freehold land	7,500	7,713	7,500	7,713

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. The determination of the fair value involves a degree of judgment. As such, the fair value of the investment property may be different from its actual market price.

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

	2009 RM'000	2008 RM'000
Rental income	60	60
Direct operating expenses	(31)	(31)

## 8. Deferred tax assets

### Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Property, plant and equipment	-	-	5,473	7,713	5,473	7,713
Provisions	8,748	7,713	-	-	(8,748)	(7,713)
Unutilised tax losses carry-forwards	12,765	-	-	-	(12,765)	-
Other items	-	-	40	-	40	-
	21,513	7,713	5,513	7,713	(16,000)	-

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## 8. Deferred tax assets (continued)

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Movement in temporary differences	Recognised in income statement		Recognised in income statement		At 30.6.2009 RM'000
	At 1.7.2007 RM'000	(Note 19) RM'000	At 30.6.2008 RM'000	(Note 19) RM'000	
Property, plant and equipment	11,358	(3,645)	7,713	(2,240)	5,473
Unutilised tax losses carry-forwards	-	-	-	(12,765)	(12,765)
Provisions	(4,395)	(3,318)	(7,713)	(1,035)	(8,748)
Other items	(9)	9	-	40	40
	<u>6,954</u>	<u>(6,954)</u>	<u>-</u>	<u>(16,000)</u>	<u>(16,000)</u>

### Unrecognised deferred tax assets

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

	2009 RM'000	2008 RM'000
Provisions	-	(13,932)
Unutilised capital allowance carry-forwards	-	(11,282)
Unutilised tax losses carry-forwards	(117,000)	(242,831)
Other items	-	(7)
	<u>(117,000)</u>	<u>(268,052)</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 therefrom cannot be clearly determined at this stage.

The estimation of the recognised deferred tax involves projection of the Company's availability of future profits. There are elements of uncertainty in the projection, which comprise of growth of car sales, global economic condition and market volatility. Thus the projected future profits may be different from its actual profits.

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## 9. Loans (secured)

	2009 RM'000	2008 RM'000
Mortgage loans	11,310	13,451
Other loans	43	20
Interest-in-suspense	(5)	(2)
	38	18
	11,348	13,469

## 10. Receivables, deposits and prepayments

	2009 RM'000	2008 RM'000
<i>Trade</i>		
Outstanding premium including agents/brokers and co-insurers balances	46,721	62,431
Allowance for doubtful debts	(26,885)	(29,124)
	19,836	33,307
Amount due from reinsurers/ceding companies	26,515	21,599
Allowance for doubtful debts	(10,785)	(9,584)
	15,730	12,015
<i>Non-trade</i>		
Other receivables, deposit and prepayments	17,341	27,357
Income due and accrued	15,694	12,918
Loan stock of a statutory body	200	200
	33,235	40,475
	68,801	85,797

## 10. Receivables, deposits and prepayments (continued)

### *Other receivables, deposits and prepayments*

Included in other receivables, deposits and prepayments was an amount of RM61,000 (2008: RM9,841,000) relating to proceeds receivable for the disposal of certain quoted shares. The amount was fully received subsequent to the financial year end.

## 11. Cash and cash equivalents

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Cash and bank balances	<u>25,982</u>	<u>34,607</u>

## 12. Provision for outstanding claims

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Provision for outstanding claims	1,360,577	1,568,086
Recoverable from reinsurers thereon	<u>(184,588)</u>	<u>(138,705)</u>
Net outstanding claims	<u>1,175,989</u>	<u>1,429,381</u>

### 13. Payables and accruals

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
<i>Trade</i>		
Amount due to reinsurers/ceding companies and co-insurers balances	18,166	13,423
Amount due to agents/brokers and insureds	3,516	3,344
	<u>21,682</u>	<u>16,767</u>
<i>Non-trade</i>		
Performance bond deposits	8,771	10,821
Accrued expenses and deposits	27,232	5,125
Advanced premium	7,760	8,202
Other payables	21,511	15,511
Amount due to holding company	26	1,207
	<u>65,300</u>	<u>40,866</u>
	<u><u>86,982</u></u>	<u><u>57,633</u></u>

### 14. Retirement benefits

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

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Defined benefit obligation at 1 July	15,461	13,774
Transfer to holding company	-	(1,132)
Benefits paid	(347)	(428)
Current service costs and interest (see below)	4,307	3,247
	<u>19,421</u>	<u>15,461</u>

**14. Retirement benefits (continued)**

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Present value of unfunded obligation	<u>19,421</u>	<u>15,461</u>
Recognised liability for defined benefit obligation	<u>19,421</u>	<u>15,461</u>

Expense recognised in the revenue account as retirement benefits (Note 22):

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Current service cost	2,496	2,461
Interest cost	<u>1,811</u>	<u>786</u>
	<u>4,307</u>	<u>3,247</u>

***Actuarial assumptions***

Principal actuarial assumptions at the balance sheet date:

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Discount rate at 30 June (per annum)	6.00%	6.00%
Future salary increases (per annum)	<u>6.00%</u>	<u>6.00%</u>

## 14. 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 significant 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.

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## 15. Unearned premium reserves

	<b>Fire</b>	<b>Motor</b>	<b>Marine, Aviation &amp; Transit</b>	<b>Miscel- laneous</b>	<b>Total</b>
<b>2009</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 July 2008	5,558	400,860	1,228	33,511	441,157
(Decrease)/Increase during the year	1,168	(59,261)	(645)	(429)	(59,167)
At 30 June 2009	<u>6,726</u>	<u>341,599</u>	<u>583</u>	<u>33,082</u>	<u>381,990</u>
<b>2008</b>					
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>

## 16. Share capital

	<b>No. of shares '000</b>	<b>2009 RM'000</b>	<b>No. of shares '000</b>	<b>2008 RM'000</b>
Authorised:				
At 1 July	300,000	300,000	300,000	300,000
Increased during the year	300,000	300,000	-	-
At 30 June	<u>600,000</u>	<u>600,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
On issue at 1 July	200,000	200,000	200,000	200,000
Conversion of ICSD (Note 17)	170,000	170,000	-	-
On issue at 30 June	<u>370,000</u>	<u>370,000</u>	<u>200,000</u>	<u>200,000</u>

## 17. Irredeemable convertible subordinated debt (ICSD)

	<b>2009</b>	
	<b>'000</b>	<b>Nominal value of share RM'000</b>
Issued and fully paid:		
Issued on 18 September 2008	400,000	400,000
Converted to shares (Note 16)	(170,000)	(170,000)
At 30 June	<u>230,000</u>	<u>230,000</u>

On 10 September 2008, the Company executed a deed poll, pursuant to which the Company agreed to issue up to RM400,000,000 nominal value 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 its solvency margin requirements and simultaneously to fulfill the new risk based capital framework issued by Bank Negara Malaysia which came 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 at the discretion of the ICSD holder.

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.

ICSD is classified as equity as it is non-redeemable and convertible during the tenure of the ICSD. ICSD which has not been converted will be fully converted on maturity date. Interest paid on ICSD is recognised as a distribution within equity (see Note 27).

## 18. Operating revenue

	<b>2009 RM'000</b>	<b>2008 RM'000</b>
Gross premium	1,001,453	1,081,897
Investment income (Note 24)	83,843	80,628
	<u>1,085,296</u>	<u>1,162,525</u>

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## 19. Tax expense

### Recognised in the income statement

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Current tax expense		
Malaysian - current	-	-
- over provision in prior years	-	(5,607)
	<u>-</u>	<u>(5,607)</u>
Deferred tax expense		
Origination and reversal of temporary differences	(16,000)	(6,683)
Effect of change in tax rate	-	(271)
	<u>(16,000)</u>	<u>(6,954)</u>
Total tax expense	<u><u>(16,000)</u></u>	<u><u>(12,561)</u></u>

### Reconciliation of tax expense

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit / (Loss) before tax	<u>68,137</u>	<u>(307,780)</u>
Tax at Malaysian tax rate of 25% (2008: 26%)	17,034	(80,023)
Effect of change in tax rate	-	(271)
Non-deductible expenses	6,515	4,643
Tax exempt income	(1,678)	(1,657)
Recognition of previously unrecognised deferred tax assets	(37,747)	-
Effect of deferred tax assets not recognised	-	69,694
Others	(124)	660
	<u>(16,000)</u>	<u>(6,954)</u>
Over provision in prior years	-	(5,607)
Total tax recognised in the income statement	<u><u>(16,000)</u></u>	<u><u>(12,561)</u></u>

With effect from year of assessment 2009, the corporate tax rate is at 25%. Subsequently, deferred tax assets and liabilities are measured using this tax rate.

## 20. Basic earnings per ordinary share

Basic earnings per ordinary share is calculated based on the profit for the year ended 30 June 2009 of RM84,137,000 (2008: Loss for the year of RM295,219,000) divided by the weighted average number of ordinary shares in issue during the year, calculated as follows:

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Profit/(Loss) for the year attributable to ordinary shareholders	<u>84,137</u>	<u>(295,219)</u>
Weighted average number of ordinary shares:		
	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Issued ordinary shares at 1 July	200,000	200,000
Effect of ICSD converted on 19 September 2008	132,740	-
Weighted average number of ordinary shares at 30 June	<u>332,740</u>	<u>200,000</u>
	<b>2009</b> <b>Sen</b>	<b>2008</b> <b>Sen</b>
Basic earnings per ordinary share	<u>25</u>	<u>(148)</u>

### Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 30 June 2009 was based on profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:-

Weighted average number of ordinary shares diluted:

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Weighted average number of ordinary shares at 30 June	332,740	200,000
Effect of assumed conversion of outstanding ICSD	179,589	-
Weighted average number of ordinary shares (diluted) at 30 June	<u>512,329</u>	<u>200,000</u>
	<b>2009</b> <b>Sen</b>	<b>2008</b> <b>Sen</b>
Diluted earnings per ordinary share	<u>16</u>	<u>(148)</u>

## 21. Net claims incurred

2009		Fire RM'000	Motor RM'000	Marine, Aviation & Transit	Miscel- laneous	Total RM'000
				RM'000	RM'000	
	Gross claims paid less salvage	12,185	914,508	7,804	40,697	975,194
	Reinsurance recoveries	(6,521)	(60,643)	(4,878)	(13,171)	(85,213)
	Net claims paid (a)	5,664	853,865	2,926	27,526	889,981
	Net outstanding claims:					
	At 30 June 2009 (b)	10,382	1,127,170	7,175	31,262	1,175,989
	At 1 July 2008 (c)	9,169	1,382,982	6,901	30,329	1,429,381
	Net claims incurred (a+b-c)	6,877	598,053	3,200	28,459	636,589
2008		Fire RM'000	Motor RM'000	Marine, Aviation & Transit	Miscel- laneous	Total RM'000
				RM'000	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

## 22. Management expenses

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Personnel expenses (including key management personnel):		
Contribution to Employees' Provident Fund	10,434	8,533
Expenses related to defined benefit plan	4,307	3,247
Wages, salaries and others	102,819	87,933
Auditors' remuneration		
Current year	270	190
Prior year	109	80
Rental of offices and premises	665	900
Depreciation of property, plant and equipment	22,882	32,135
Amortisation of prepaid lease payments	419	419
Allowance for doubtful debts written back	(1,038)	(870)
Bad debts written off	60	1,467
Bad debts recovered	(600)	(328)
IGSF levies	2,497	2,700
Advertisement expenses	5,616	13,944
Bank charges	10,687	11,211
Other expenses	47,747	67,943
	<u>206,874</u>	<u>229,504</u>

## 23. Key management personnel compensation

The key management personnel compensation are as follows:

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Executive Directors		
Remuneration	941	932
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	<u>37</u>	<u>57</u>
	<u>978</u>	<u>989</u>
Non-Executive Directors		
Fees	178	519
Remuneration	1,625	3,405
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	<u>1,070</u>	<u>1,133</u>
	<u>2,873</u>	<u>5,057</u>
Other key management personnel:		
Short-term employee benefits	-	947
Total short-term employee benefits	<u>3,851</u>	<u>6,993</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 RM10,000 (2008: RM55,000) and RM37,000 (2008: RM30,000) 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 14.

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 RM978,000 (2008: RM489,000).

## 24. Investment income

	<b>2009</b>	<b>2008</b>
	<b>RM'000</b>	<b>RM'000</b>
Interest income from:		
Malaysian Government Securities	3,326	3,606
Cagamas Bonds	1,310	1,477
Unquoted corporate debt securities	41,399	33,956
Secured short term loans		
- Performing loans	677	792
Government Investment Issues	824	1,052
Government Guaranteed Bonds	1,391	2,155
Negotiable Instrument of Deposits	518	778
Fixed and call deposits	23,225	18,891
Gross dividends from:		
Quoted shares in Malaysia	5,420	13,567
Quoted unit trusts in Malaysia	6,495	5,658
Unquoted shares in Malaysia	137	220
Accretion of discounts on:		
Malaysian Government Securities	68	-
Government Investment Issues	104	89
Unquoted corporate debt securities	275	614
Government Guaranteed Bonds	28	95
Zero Coupon Bonds	45	208
Amortisation of premium on:		
Malaysian Government Securites	-	(26)
Unquoted corporate debt securities	(1,399)	(2,504)
	<u>83,843</u>	<u>80,628</u>

**25. Other income**

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Other interest income	551	736
Sundry income	984	1,141
Profit on disposal of investments	4,474	36,876
Gain on disposal of equipment	502	95
Write back of allowance for diminution in value of investments in Negotiable Instrument of Deposits	867	-
Write back of allowance for diminution in value of investments in quoted shares and unit trusts	19,977	-
	<u>27,355</u>	<u>38,848</u>

**26. Other expenses**

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Write off of property, plant and equipment	474	1,051
Allowance for diminution in value of investments in Negotiable Instrument of Deposits	-	2,385
Allowance for diminution in value of investments in quoted shares and unit trusts	5,675	23,692
Loss on disposal of investments	48,391	-
Impairment loss on property, plant and equipment	5,034	-
Miscellaneous	4,647	-
	<u>64,221</u>	<u>27,128</u>

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## 27. Interest on ICSD

<b>Recognised in equity:</b>	<b>2009 RM'000</b>
Interest on ICSD	<u>16,544</u>

Interest paid on ICSD is determined at the discretion of the ICSD holder. The effective interest rate of ICSD interest paid during the year is 9.2% per annum (see Note 17).

## 28. 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 2009 amounted to approximately:

	<b>2009 RM'000</b>	<b>2008 RM'000</b>
<b>Property, plant and equipment</b>		
Contracted but not provided for	<u>15,188</u>	<u>10,008</u>
<b>Other commitments</b>		
Consultancy fees payable to third party	<u>-</u>	<u>18,906</u>

## **29. 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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## 29. Related parties (continued)

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

	2009		2008	
	Transaction amount RM'000	Balance outstanding RM'000	Transaction amount RM'000	Balance outstanding RM'000
<b>Holding company</b>				
Sharing of common expenses paid	8,297	26	7,901	75
Interest paid on ICSD	16,544	-	-	-
Retirement expenses transferred	-	-	-	(1,132)
Reimbursement of expenses paid	4,181	-	-	-
<b>A company in which Dato' Low Heong Chow @ Loh Heong Chow and Tan Sri Dato' Paduka Kua Sian Kooi are common directors and Tan Sri Dato' Paduka Kua Sian Kooi has direct interest:</b>				
Reinsurance inwards premium	(154)	(13)	(181)	(50)
Reinsurance inwards claims	90	-	-	-
<b>A company in which Tan Sri Dato' Paduka Kua Sian Kooi has indirect interest:</b>				
Air ticket and tour services paid	292	-	1,872	17
Advertisement expenses	-	-	-	-
Rental income	12	-	36	-
<b>A company in which Tan Sri Dato' Paduka Kua Sian Kooi is a common director and has interest:</b>				
Rental expenses	108	-	108	-
	108	-	108	-

## **30. 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.

### **30. 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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### 30. 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.

2009 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
<b>Fixed rate instruments</b>								
Malaysian Government Securities	4.08	64,804	-	-	-	15,002	-	49,802
Cagamas Bonds	5.21	47,000	-	1,000	-	1,000	25,000	20,000
Zero Coupon Government Guaranteed Bonds	-	-	-	-	-	-	-	-
Government Investment Issues	3.38	4,949	-	4,949	-	-	-	-
Government Guaranteed Bonds	4.15	25,034	-	-	4,980	-	-	20,054
Unquoted secured corporate debt securities	4.31	10,041	-	-	5,041	-	-	5,000
Unquoted unsecured corporate debt securities	5.43	864,952	90,038	150,024	111,198	212,201	123,924	177,567
Secured short term loans								
Performing loans	8.80	7,590	1,000	1,000	1,000	1,000	1,000	2,590
Non-performing loan	-	6,000	6,000	-	-	-	-	-
Fixed and call deposits	3.72	580,241	160,241	60,000	80,000	140,000	140,000	-
Mortgage loans	4.00	6,118	14	141	231	-	93	5,639
<b>Floating rate instrument</b>								
Negotiable Instrument of Deposits	4.48	28,320	28,320	-	-	-	-	-
Mortgage loans	4.13	5,192	5,192	-	-	-	-	-

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### 30. Financial instruments (continued)

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
<b>Financial assets</b>								
<b>Fixed rate instruments</b>								
Malaysian Government Securities	5.02	70,487	26,043	-	-	15,002	-	29,442
Cagamas Bonds	5.62	47,000	-	-	1,000	-	26,000	20,000
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
<b>Floating rate instruments</b>								
Negotiable Instrument of Deposits	6.19	27,453	27,453	-	-	-	-	-
Mortgage loans	4.58	6,229	6,229	-	-	-	-	-

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### 30. 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 their 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 significant 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 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 2009, 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.

### 30. Financial instruments (continued)

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

	2009		2008	
	Carrying amount RM'000	Fair Value RM'000	Carrying amount RM'000	Fair Value RM'000
Investments in debt and securities				
- Malaysian Government Securities	64,804	65,404	70,487	70,288
- Cagamas Bonds	47,000	47,927	17,000	16,969
- Zero Coupon Government Guaranteed Bonds	-		4,955	4,959
- Government Investment Issues	4,949	4,967	31,845	31,719
- Government Guaranteed Bonds	25,034	25,173	59,937	59,260
- Negotiable Instrument of Deposits	28,320	28,320	27,453	27,453
- Unquoted secured corporate debt securities	10,041	9,855	5,000	4,640
- Unquoted unsecured corporate debt securities	864,952	864,678	653,901	640,644
- Secured short term loans				
Performing loans	7,590	7,590	8,256	8,256
Non-performing loan	6,000	6,000	6,000	6,000
- Fixed and call deposits	580,241	580,241	389,076	389,076
- Quoted shares of corporations	62,829	62,829	199,673	199,981
- Quoted unit trusts	143,724	143,724	133,711	133,711
Loans				
- Mortgage loans	11,310	11,310	13,451	13,451

### **31. Compliance with Risk-Based Capital framework**

In prior years, the Company was required to observe a computation to measure its solvency pursuant to the Insurance Act, 1996 and Insurance Regulation, 1996, which required the Company to maintain at all times, an absolute minimum amount of margin of solvency for its general insurance business. As at 30 June 2009, had the same computation been used, the general insurance business would have complied with the said requirement with a surplus of approximately RM185 million.

The solvency requirement has been replaced by the Risk-Based Capital (RBC) framework issued by Bank Negara Malaysia, which is effective 1 January 2009. The Company is now required to determine the adequacy of the capital available in its insurance and shareholders funds to support the total capital required to operate the Company's insurance operations. Bank Negara Malaysia has set a supervisory target capital level of 130% under the Risk-Based Supervisory Framework. The Company has put in place a plan to achieve the supervisory target capital level of 130% by 31 December 2009.

### **32. Post balance sheet event**

Subsequent to year end, the Company changed its financial year end to 31 December, to be co-terminous with its holding company. Accordingly, the next financial statement will be for the six-month period ending 31 December 2009.

**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 9 to 60 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 2009 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' Paduka Kua Sian Kooi**

**Chia Ah Kow**

Petaling Jaya, Selangor

Date: 5 October 2009

**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 9 to 60 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 5 October 2009.

**San Chee Kit**

Before me:  
**Muhammad Bin Haron**  
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 2009, 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 9 to 60.

### *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
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### *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 2009 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 plans to meet the supervisory target level of 130% by 31 December 2009, based on the new Risk-Based Capital Framework which came into effect from 1 January 2009. Compliance with the said framework will depend on the successful implementation of the Company's action plans.

### **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: 2613/12/10(J)  
Chartered Accountant

Petaling Jaya, Selangor

Date: 5 October 2009