

MUI Continental Insurance Berhad

(Company No. 29123-D)
(Incorporated in Malaysia)

and its subsidiary

Financial statements - 31 December 2006
Together with Directors' and Auditors' Reports
(In Ringgit Malaysia)

MUI Continental Insurance Berhad

(Company No. 29123-D)

(Incorporated in Malaysia)

and its subsidiary

Reports and financial statements for the year ended 31 December 2006

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MUI Continental Insurance Berhad

(Company No. 29123-D)

(Incorporated in Malaysia)

and its subsidiary

Directors' report for the financial year ended 31 December 2006

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

Principal activity

The Company is principally engaged in the general insurance business of all classes. The principal activity of the subsidiary is as disclosed in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Results

	Group RM	Company RM
Net profit after tax for the year	10,735,516 =====	10,675,657 =====

Dividends

Since the end of the previous financial year, the Company paid a final dividend of 7.5% less 28% tax totaling RM5,401,269 in respect of the year ended 31 December 2005 on 9 May 2006.

The Board of Directors proposed a final dividend of 9% less 27% tax totaling RM6,571,544 in respect of the year ended 31 December 2006.

Reserves and provisions

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

Provision for outstanding claims

Before the financial statements of the Group and 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.

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Bad and doubtful debts

Before the financial statements of the Group and 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 allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

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

Current assets

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their values as shown in the financial statements of the Group and 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 Group and of the Company misleading.

Valuation methods

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

Contingent and other liabilities

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

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

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and 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 liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group and of the Company.

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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 Group and of the Company, that would render any amount stated in the financial statements misleading.

Items of an unusual nature

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 have not been substantially affected by any item, transaction or event of a material and unusual nature except for the writeback of provision for diminution in value of RM5.13 million as disclosed in Note 19 to the financial statements.

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 Group and of the Company for the financial year in which this report is made.

Issue of shares

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

Statement on corporate governance and internal controls

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia.

Board of Directors

The Directors in office since the date of the last report and their attendance record for the six Board meetings held during the year are: -

<u>Director</u>	<u>No. of Board Meetings Attended</u>
Tan Sri Datuk Seri Abu Talib bin Othman (Chairman)	6 / 6
Tan Sri Dato' Khoo Kay Peng	6 / 6
Tan Sri Dato' Paduka Dr. Mazlan bin Ahmad (Appointed on 4 May 2006)	4 / 4
Dato' Tee Tiam Lee	6 / 6
Dato' Leong Kok Wah	6 / 6
Khet Kok Yin	5 / 6
Dr. Ngui Chon Hee	5 / 6
Tan Lian Tee	6 / 6
Lai Chee Leong	6 / 6

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Three Board Committees were established on 25 June 2003 to enhance the Board's effectiveness, namely the Risk Management Committee, Nomination Committee and Remuneration Committee.

Risk Management Committee

The Risk Management Committee is responsible for overseeing the senior management's activities in managing key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

Composition of the Risk Management Committee is as follows:

Tan Sri Datuk Seri Abu Talib bin Othman
Dato' Tee Tiam Lee
Dr. Ngui Chon Hee

Nomination Committee

The Nomination Committee is responsible for proposing new appointments of Directors, Board Committees and key senior officers, as well as developing an objective and transparent mechanism for the formal assessment of the effectiveness of the Board as a whole, the contribution of individual Directors and performance evaluation of key senior officers.

Composition of the Nomination Committee is as follows:

Tan Sri Datuk Seri Abu Talib bin Othman
Tan Sri Dato' Khoo Kay Peng
Khet Kok Yin
Dr. Ngui Chon Hee
Tan Lian Tee

Remuneration Committee

The Remuneration Committee is responsible for the development of relevant policies and framework for the remuneration of Directors, Chief Executive Officer and key senior officers as well as setting specific remuneration packages.

Composition of the Remuneration Committee is as follows:

Tan Sri Datuk Seri Abu Talib bin Othman
Dato' Tee Tiam Lee
Khet Kok Yin
Dr. Ngui Chon Hee

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Directors' interests in securities

The interests in the shares and/or securities of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Nominal value per share	Number of ordinary shares			At 31.12.2006
		At 1.1.2006/ date of appointment*	Bought	Sold	
Shareholdings in which Directors have direct interest					
Interest of Tan Sri Datuk Seri Abu Talib bin Othman in: Company	RM1.00	4,340,000	-	-	4,340,000
Interest of Dato' Tee Tiam Lee in: Company	RM1.00	20,004,700	-	-	20,004,700
Interest of Tan Sri Dato' Paduka Dr. Mazlan Bin Ahmad in: Malayan United Industries Berhad ("MUP")	RM1.00	100,000*	-	-	100,000
Interest of Dr. Ngui Chon Hee in: MUI Properties Berhad ("MPB")	RM0.50	30,000	-	-	30,000
Shareholdings in which Directors have deemed/indirect interest					
Deemed interest of Tan Sri Dato' Khoo Kay Peng in:					
Company	RM1.00	52,226,568	-	-	52,226,568
MUI	RM1.00	903,492,500	-	-	903,492,500
MPB	RM0.50	550,862,661	-	-	550,862,661
Pan Malaysia Corporation Berhad	RM0.50	428,544,500	-	-	428,544,500
Pan Malaysia Holdings Berhad	RM0.10	633,814,310	4,758,676	-	638,572,986

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Directors' interests in securities (continued)

Indirect interest of Dato' Leong

Kok Wah in:

Company	RM1.00	4,501,057	-	-	4,501,057
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Indirect interest of Dr. Ngui

Chon Hee in:

MPB	RM0.50	84,000	-	-	84,000
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Nominal Value

	At 1.1.2006 RM	Bought RM	Sold RM	At 31.12.2006 RM
Deemed interest of Tan Sri Dato' Khoo Kay Peng in: Irredeemable Convertible Unsecured Loan Stocks ("ICULS") of MUI				
Class A1 ICULS	56,891,278	71,757,000	805,749	127,842,529
Class A2 ICULS	56,891,278	103,440,000	805,749	159,525,529
Direct interest of Dr Ngui Chon Hee in: ICULS of MUI				
Class A1 ICULS	13,013	-	-	13,013
Class A2 ICULS	13,013	-	-	13,013
Indirect interest of Dr Ngui Chon Hee in: ICULS of MUI				
Class A1 ICULS	36,436	-	-	36,436
Class A2 ICULS	36,436	-	-	36,436

By virtue of Tan Sri Dato' Khoo Kay Peng's deemed interest in MUI, he is deemed to have an interest in the shares of all other subsidiaries of MUI (including the Company and its subsidiary) to the extent that MUI has an interest.

Other than as disclosed above, none of the other Directors holding office at the end of the financial year held or dealt in the securities of the Company and its related corporations at any time during the financial year.

Company No. 29123-D

Directors' benefits

Since the end of the previous financial year, no director of the Company has received or 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) by reason of a contract made by the Company or a related company 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 where certain Directors may benefit from transactions as disclosed in the Note 25 to the financial statements.

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

Holding and ultimate holding companies

The holding and ultimate holding companies are Novimax (M) Sdn. Bhd. and Malayan United Industries Berhad respectively, both companies incorporated in Malaysia.

Auditors

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

Signed in accordance with a resolution of the Directors:



.....
Tan Sri Datuk Seri Abu Talib bin Othman



.....
Dr Ngu Chon Hee

Kuala Lumpur, Malaysia

Date: **27 FEB 2007**

MUI Continental Insurance Berhad

(Company No. 29123-D)

(Incorporated in Malaysia)


and its subsidiary

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

We, Tan Sri Datuk Seri Abu Talib bin Othman and Dr Ngui Chon Hee, being two Directors of MUI Continental Insurance Berhad, do hereby state that, in the opinion of the Directors, the financial statements of the Group and of the Company set out on pages 11 to 54 are properly drawn up to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of their results and cash flows for the financial year then ended, and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board.

Signed in accordance with a resolution of the Directors:


.....
Tan Sri Datuk Seri Abu Talib bin Othman


.....
Dr Ngui Chon Hee

Kuala Lumpur, Malaysia

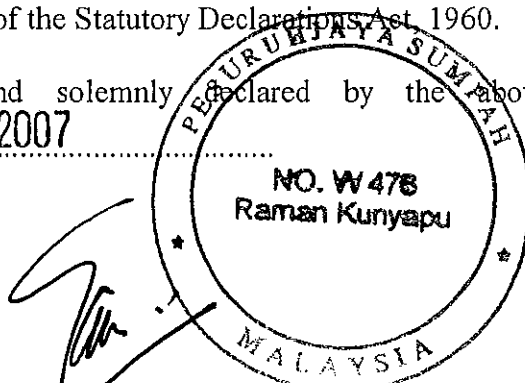
Date: 27 FEB 2007

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

I, **Wong Kim Teck**, being the officer primarily responsible for the financial management of MUI Continental Insurance Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 11 to 54 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on
27 FEB 2007

Before me:



Unit No 50-8-1, Tkt 10
Wisma UOA Damansara
50 Jalan Dungun
Damansara Heights
50490 Kuala Lumpur


.....
Wong Kim Teck

Report of the auditors to the members of MUI Continental Insurance Berhad

(Company No. 29123-D)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 11 to 54. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

The subsidiary in respect of which we have not acted as auditors is identified in Note 5 to the financial statements and we have considered its financial statements and the auditors' report thereon.

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We are satisfied that the financial statements of the subsidiary that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.



KPMG
Firm Number: AF 0758
Chartered Accountants



Khaw Hock Hoe
Partner
Approval Number: 2229/04/08(J)

Kuala Lumpur,

Date: **27 FEB 2007**

MUI Continental Insurance Berhad

(Company No. 29123-D)

(Incorporated in Malaysia)

and its subsidiary

Group balance sheet at 31 December 2006

	Note	Group	
		2006 RM	2005 RM
Assets			
Property, plant and equipment	3	1,613,333	1,672,161
Goodwill		145,887	145,887
Investment property	4	214,784	-
Investments	6	187,767,809	182,390,120
Deferred tax asset	7	3,537,000	4,406,000
Receivables	8	34,326,449	31,432,478
Tax recoverable		8,842	289,690
Cash and cash equivalents	9	26,372,150	12,468,212
Total assets		253,986,254	232,804,548
Liabilities			
Provision for outstanding claims	10	53,328,169	49,248,896
Payables	11	44,562,513	33,664,800
Staff retirement gratuity	12	1,106,152	1,014,983
Taxation		399,132	48,510
Total liabilities		99,395,966	83,977,189
Insurance reserves			
Unearned premium reserve	13	27,134,930	26,706,248
Shareholders' equity:			
Share capital	14	100,023,500	100,023,500
Reserves		27,431,858	22,097,611
		127,455,358	122,121,111
Total liabilities and shareholders' equity		253,986,254	232,804,548

The group balance sheet above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)

(Incorporated in Malaysia)

and its subsidiary

Group income statement for the year ended 31 December 2006

	Note	Group	
		2006 RM	2005 RM
Operating revenue	16	<u>137,272,562</u>	<u>127,379,233</u>
Shareholders' fund			
Investment income	18	1,169,543	1,092,251
Other operating income/(expenditure) - net	19	117,922	(93,882)
Management expenses	17	(7,285)	(17,158)
		<u>1,280,180</u>	<u>981,211</u>
Transfer from insurance revenue account		14,159,330	4,429,040
		<u>15,439,510</u>	<u>5,410,251</u>
Profit before taxation			
Tax expense	20	(4,703,994)	(1,117,789)
		<u>10,735,516</u>	<u>4,292,462</u>
Net profit for the year			
Earnings per ordinary share (sen)	21	<u>10.73</u>	<u>4.29</u>
Dividend per ordinary share - net (sen)	23	<u>6.57</u>	<u>5.40</u>

The group income statement above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)

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Group statement of changes in equity for the year ended 31 December 2006

Group

	Note	Share capital RM	<i>Non distributable</i> Share premium RM	<i>Distributable</i> Retained profits RM	Total RM
At 1 January 2005		100,023,500	980,000	20,425,995	121,429,495
Net profit for the year		-	-	4,292,462	4,292,462
Dividend paid - 2004 final		-	-	(3,600,846)	(3,600,846)
At 31 December 2005/ 1 January 2006		100,023,500	980,000	21,117,611	122,121,111
Net profit for the year		-	-	10,735,516	10,735,516
Dividend paid - 2005 final	23	-	-	(5,401,269)	(5,401,269)
At 31 December 2006		100,023,500	980,000	26,451,858	127,455,358

Note 14

The group statement of changes in equity above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)

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Group cash flow statement for the year ended 31 December 2006

	Group	
	2006 RM	2005 RM
Cash flow from operating activities		
Profit before tax	15,439,510	5,410,251
Adjustments for:		
Depreciation	435,586	383,343
Plant and equipment written off	130,375	-
Gain on disposal of property and equipment	(18,971)	-
Increase in unearned premium reserve	428,682	757,975
Investment income	(7,234,938)	(6,450,240)
Gain on disposal of investments	(2,407,730)	(549,073)
Provision for retirement gratuity	97,669	132,863
(Write back of)/Provision for diminution in value of investments	(5,138,564)	5,489,622
Provision for/(Write back of) permanent diminution in value of quoted investments	924,001	(882,565)
Amortisation of premiums net of accretion of discounts of Malaysian Government Securities and Corporate Bonds	331,660	351,419
Profit from operations before changes in operating assets and liabilities	2,987,280	4,643,595
Purchase of investments	(26,096,064)	(28,414,080)
Proceeds from redemption and disposal of investments	36,730,536	18,188,080
Increase in fixed deposits	(9,721,528)	(24,440,442)
(Increase)/Decrease in receivables	(2,893,971)	(7,378,065)
Increase in outstanding claims	4,079,273	9,295,614
Increase in payables	10,897,713	10,674,841
Cash generated from/(used in) operations	15,983,239	(17,430,457)
Tax paid	(3,203,524)	(3,574,211)
Investment income received		
- Dividend	1,039,625	1,106,443
- Interest	6,195,313	5,343,797
Payment of retirement benefits	(6,500)	(91,564)
Net cash generated from/(used in) operating activities	20,008,153	(14,645,992)

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Group cash flow statement for the year ended 31 December 2006

(continued)

	2006 RM	2005 RM
Cash flow from investing activities		
Proceeds from disposal of property and equipment	25,079	-
Purchase of equipment	(728,025)	(204,656)
Net cash used in investing activities	<u>(702,946)</u>	<u>(204,656)</u>
Cash flow from financing activity		
Dividends paid	(5,401,269)	(3,600,846)
Net cash used in financing activity	<u>(5,401,269)</u>	<u>(3,600,846)</u>
Net increase/(decrease) in cash and cash equivalents	13,903,938	(18,451,494)
Cash and cash equivalents at beginning of year	12,468,212	30,919,706
Cash and cash equivalents at end of year (Note 9)	<u><u>26,372,150</u></u>	<u><u>12,468,212</u></u>

The group cash flow statement above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

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Balance sheet at 31 December 2006

	Note	Company	
		2006 RM	2005 RM
Assets			
Property, plant and equipment	3	1,613,333	1,457,377
Investment in subsidiary	5	1,810,000	1,810,000
Investments	6	187,767,809	182,390,120
Deferred tax asset	7	3,537,000	4,406,000
Receivables	8	34,287,709	31,400,233
Tax recoverable		-	273,540
Cash and cash equivalents	9	23,169,233	9,327,335
Total assets		252,185,084	231,064,605
Liabilities			
Provision for outstanding claims	10	53,328,169	49,248,896
Payables	11	44,548,929	33,652,584
Staff retirement gratuity	12	1,106,152	1,014,983
Taxation		350,622	-
Total liabilities		99,333,872	83,916,463
Insurance reserves			
Unearned premium reserve	13	27,134,930	26,706,248
Shareholders' equity:			
Share capital	14	100,023,500	100,023,500
Reserves		25,692,782	20,418,394
		125,716,282	120,441,894
Total liabilities and shareholders' equity		252,185,084	231,064,605

The balance sheet above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)
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Income statement for the year ended 31 December 2006

	Note	Company	
		2006 RM	2005 RM
Operating revenue	16	137,166,423	127,283,842
Shareholders' fund			
Investment income	18	1,063,404	996,860
Other operating income/(expenditure) - net	19	132,809	(94,610)
		1,196,213	902,250
Transfer from insurance revenue account		14,159,330	4,429,040
Profit before taxation		15,355,543	5,331,290
Tax expense	20	(4,679,886)	(1,091,166)
Net profit for the year		10,675,657	4,240,124
Dividend per ordinary share - net (sen)	23	6.57	5.40

The income statement above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

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Statement of changes in equity for the year ended 31 December 2006

Company

	Note	Share capital RM	<i>Non distributable</i> Share premium RM	<i>Distributable</i> Retained profits RM	Total RM
At 1 January 2005		100,023,500	980,000	18,799,116	119,802,616
Net profit for the year		-	-	4,240,124	4,240,124
Dividend paid - 2004 final		-	-	(3,600,846)	(3,600,846)
At 31 December 2005/ 1 January 2006		100,023,500	980,000	19,438,394	120,441,894
Net profit for the year		-	-	10,675,657	10,675,657
Dividend paid - 2005 final	23	-	-	(5,401,269)	(5,401,269)
At 31 December 2006		100,023,500	980,000	24,712,782	125,716,282

Note 14

The statement of changes in equity above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)

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General insurance revenue account for the year ended 31 December 2006

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM
Gross premium	16	31,331,665	32,853,859	28,630,670	26,613,829	14,147,053	14,897,041	55,928,236	46,564,264	130,037,624	120,928,993
Less: Reinsurance		(21,046,131)	(22,085,475)	(2,980,309)	(2,602,543)	(12,411,708)	(13,187,842)	(33,169,997)	(24,959,627)	(69,608,145)	(62,835,487)
Net premium Decrease/(Increase) in unearned premium reserves	13	10,285,534	10,768,384	25,650,361	24,011,286	1,735,345	1,709,199	22,758,239	21,604,637	60,429,479	58,093,506
		768,882	673,897	(824,448)	(2,333,001)	532,386	(432,701)	(905,502)	1,333,830	(428,682)	(757,975)
Earned premium		11,054,416	11,442,281	24,825,913	21,678,285	2,267,731	1,276,498	21,852,737	22,938,467	60,000,797	57,335,531
Net claims incurred	22	(2,963,027)	(4,281,924)	(17,899,350)	(16,009,895)	(720,316)	(817,677)	(17,728,226)	(16,531,562)	(39,310,919)	(37,641,058)
Net commission		(1,024,190)	(1,486,621)	(2,577,762)	(2,440,744)	534,388	785,597	(1,849,902)	(2,067,382)	(4,917,466)	(5,209,150)
Underwriting surplus before management expenses carried forward		(3,987,217)	(5,768,545)	(20,477,112)	(18,450,639)	(185,928)	(32,080)	(19,578,128)	(18,598,944)	(44,228,385)	(42,850,208)
		7,067,199	5,673,736	4,348,801	3,227,646	2,081,803	1,244,418	2,274,609	4,339,523	15,772,412	14,485,323

MUI Continental Insurance Berhad

(Company No. 29123-D)

(Incorporated in Malaysia)

and its subsidiary

General insurance revenue account for the year ended 31 December 2006

(continued)

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM	2006 RM	2005 RM
Underwriting surplus before management expenses brought forward		7,067,199	5,673,736	4,348,801	3,227,646	2,081,803	1,244,418	2,274,609	4,339,523	15,772,412	14,485,323
Management expenses	17									(13,550,690)	(10,893,854)
Underwriting surplus										2,221,722	3,591,469
Investment income	18									6,065,395	5,357,989
Other (expenditure)/ income - net	19									5,872,213	(4,520,418)
Transfer to income statement										14,159,330	4,429,040

The general insurance revenue account above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)
(Incorporated in Malaysia)

Cash flow statement for the year ended 31 December 2006

	Company	
	2006 RM	2005 RM
Cash flow from operating activities		
Profit before tax	15,355,543	5,331,290
Adjustments for:		
Depreciation	435,586	383,343
Plant and equipment written off	130,375	-
Gain on disposal of equipment	(18,971)	-
Increase in unearned premium reserves	428,682	757,975
Investment income	(7,128,799)	(6,354,849)
Gain on disposal of investments	(2,407,730)	(549,073)
Provision for staff retirement gratuity	97,669	132,863
(Write back of)/provision for diminution in value of investments	(5,138,564)	5,489,622
Provision for/(write back of) permanent diminution in value of quoted investments	924,001	(882,565)
Amortisation of premiums net of accretion of discounts of Malaysian Government Securities and Corporate Bonds	331,660	351,419
Profit from operations before changes in operating assets and liabilities	3,009,452	4,660,025
Purchase of investments	(26,096,064)	(28,414,080)
Proceeds from redemption and disposal of investments	36,730,536	18,188,080
Increase in fixed deposits	(9,721,528)	(24,440,442)
Increase in receivables	(2,887,476)	(7,386,007)
Increase in outstanding claims	4,079,273	9,295,614
Increase in payables	10,896,345	10,676,335
Cash generated from/(used in) operations	16,010,538	(17,420,475)
Tax paid	(3,186,724)	(3,551,111)
Investment income received		
- Dividend	1,039,625	1,106,443
- Interest	6,089,174	5,248,406
Payment of retirement benefits	(6,500)	(91,564)
Net cash generated from/(used in) operating activities	19,946,113	(14,708,301)

Company No. 29123-D

Cash flow statement for the year ended 31 December 2006

(continued)

	2006 RM	2005 RM
Cash flow from investing activities		
Proceeds from disposal of equipment	25,079	-
Purchase of equipment	(728,025)	(204,656)
	<hr/>	<hr/>
Net cash used in investing activity	(702,946)	(204,656)
	<hr/>	<hr/>
Cash flow from financing activity		
Dividends paid	(5,401,269)	(3,600,846)
	<hr/>	<hr/>
Net cash used in financing activity	(5,401,269)	(3,600,846)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	13,841,898	(18,513,803)
Cash and cash equivalents at beginning of year	9,327,335	27,841,138
	<hr/>	<hr/>
Cash and cash equivalents at end of year (Note 9)	23,169,233	9,327,335
	<hr/> <hr/>	<hr/> <hr/>

The cash flow statement above is to be read in conjunction with the notes to the financial statements on pages 23 to 54.

MUI Continental Insurance Berhad

(Company No. 29123-D)
(Incorporated in Malaysia)

Notes to the financial statements

MUI Continental Insurance Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

Registered office:

5th Floor, Menara PMI
No. 2, Jalan Changkat Ceylon
50200 Kuala Lumpur
Malaysia

Principal place of business:

Mezzanine & 1st Floor, Plaza See Hoy Chan
Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiary (together referred to as the Group). The financial statements of the Company as at and for the year ended 31 December 2006 do not include any other entities.

The principal activity of the Company is that of underwriting general insurance. The subsidiary company carries on the business of property investment. There have been no significant changes in the nature of these activities during the financial year.

The holding and ultimate holding companies are Novimax (M) Sdn. Bhd. and Malayan United Industries Berhad respectively. Both companies are incorporated in Malaysia.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia, the provisions of the Companies Act, 1965, the Insurance Act, 1996, Insurance Regulations, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The MASB issued a number of new and revised Financial Reporting Standards (FRSs) that are effective for accounting periods beginning after 1 January 2006 or available for early adoption. The MASB has also issued FRS124, Related Party Disclosures and FRS 117 Leases which effective date is annual periods commencing on or after 1 October 2006 and FRS 139, Financial Instruments: Recognition and Measurement but for which the MASB has yet to announce the effective date of this standard.

The Group has not early adopted FRS 117, FRS 124 and FRS 139 and by virtue of the exemptions provided specifically in these respective standards, the impact of applying these standards on these financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

The adoption of these new / revised FRSs in 2006 do not have any significant financial effect to the financial statements. The adoption of FRS 140, Investment Property resulted in the reclassification of the investment property as disclosed in Note 4 for the Group.

The financial statements were approved by the Board of Directors on 27 FEB 2007.

(b) Basis of measurement

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

General business assets and liabilities relate 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.

(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.

Company No. 29123-D

1. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed in the following note:

Note 2(i) - Provision for outstanding claims

2. Significant accounting policies

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

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of the subsidiary included in the consolidated financial statements is from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, if any, unless the investment is classified as held for sale.

(ii) *Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2. Significant accounting policies (continued)

(b) Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

(ii) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The straight-line method is used to write off the cost of the assets over their estimated useful lives at the following principal annual rates:

Furniture, fittings and office equipment	6% - 20%
Motor vehicles	20%

The depreciable amount is determined after deducting the residual value.

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

(c) Intangible assets

(i) *Goodwill*

Goodwill arose from the acquisition of the subsidiary.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

With the adoption of FRS 3 beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

2. Significant accounting policies (continued)

(c) Intangible assets (continued)

(i) Goodwill (continued)

Goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment.

For the purpose of annual impairment testing, the carrying value of investment in subsidiary was compared against the net tangible assets of the subsidiary's audited financial statements.

(d) Investment property

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy note (b).

In accordance with FRS 140, investment properties can be carried either at cost or fair value. The Group has adopted the cost method in valuing investment properties with effect from 1 January 2006.

In the previous years, the investment property was included in property, plant and equipment. Following the adoption of FRS 140, Investment Property, this investment property is now classified separately. Transfers between investment property and property, plant and equipment do not change the carrying amount and the cost of the property transferred.

Freehold land is not depreciated.

(e) Investments

Investments in Malaysian Government Securities and other unquoted unsecured bonds held to maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts. Premiums/discounts are calculated on a straight line basis over the period from the date of acquisition to the date of maturity of the securities. The amortisation of premiums and accretion of discounts are recognised in the revenue account.

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments. Specific provision for diminution in value of quoted investments will be made, if any, when the market value has been less than 80% of its cost at all times during the preceding 24 months, by writing down the cost of that quoted investment to the average median price for each month during that 24 month period.

2. Significant accounting policies (continued)

(e) Investments (continued)

All other unquoted investments (including investment in subsidiary) are stated at cost. An allowance is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

(f) Impairment of assets

The carrying amounts of assets except for deferred tax assets and financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. For goodwill, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. 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 (groups of units) on a pro rata basis.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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 income statement in the year in which the reversals are recognised.

2. Significant accounting policies (continued)

(g) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

Known bad debts are written off and specific allowance for doubtful debts is made for any premiums including agents and reinsurance balances which remain outstanding for more than six months from the date on which they became receivable, motor premiums which remain outstanding for more than 30 days and for all debts which are considered doubtful.

(h) Employee benefits

(i) *Short term employee benefits*

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

The Company's contribution to the Employee's Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(ii) *Defined benefit plans*

The Company operates an unfunded defined benefit scheme. Benefits payable upon retirement age of 50 and 55 with a minimum vesting period of 20 and 10 years service, respectively; are based on a percentage of eligible employees' salaries over the period of their employment. Contributions to the scheme are charged to the income statement so as to spread the cost of the scheme over the employees' working lives in the Company.

The retirement benefit is calculated based on the current emoluments of all eligible employees and the length of their service to the extent of the Company's contractual liability at year end. Full provision is maintained for all eligible employees in the absence of an independent actuarial valuation. This is not in compliance with requirements of FRS119₂₀₀₄ but the effect is not material.

2. Significant accounting policies (continued)

(i) 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 period in respect of risks assumed during that particular financial period. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers while inward facultative reinsurance premiums are recognised on inception date.

Inward Treaty Business

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

Unearned Premium Reserve

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

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

- (i) 25% method for Malaysian marine and aviation cargo business.
- (ii) 1/24th method for all other classes of Malaysian general policies business.
- (iii) 1/8th method for all other classes of overseas inward treaty business.

The UPR calculation is adjusted for additional UPR as required under the guidelines issued by BNM in respect of premiums ceded to overseas reinsurers.

Company No. 29123-D

2. Significant accounting policies (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 made for the estimated costs and all claims together with the related expenses less recoveries to settle the present obligations at the balance sheet date.

Provision is also made for the cost of claims, together with related expenses incurred but not reported (IBNR) at balance sheet date, using a mathematical method of estimation as determined by an independent external actuary.

Estimating the provision for outstanding claims, involves projection of the Company's future claims experience based on current 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 due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

These uncertainties arise from changes in underlying risks, changes in spread of risks, claims settlement 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 or ceding income which are not recoverable or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

(j) Other revenue recognition

Interest income on deposits and other interest-bearing investments are recognised on an accrual basis.

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

Dividend income from the subsidiary company is recognised when the right to receive payment is established.

Rental income is recognised in the income statement as it accrues based on the terms of the agreements.

Company No. 29123-D

2. Significant accounting policies (continued)

(k) Payables

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

(l) 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 goodwill, 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.

(m) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transaction.

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

Company No. 29123-D

2. Significant accounting policies (continued)

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value.

Company No. 29123-D

3. Property, plant and equipment

Group	Freehold land and building RM	Furniture and fittings RM	Office equipment RM	Motor vehicles RM	Total RM
<i>Cost</i>					
At 1 January 2005	214,784	1,295,219	4,315,855	216,676	6,042,534
Additions	-	8,280	196,376	-	204,656
Written off	-	-	(91,770)	-	(91,770)
At 31 December 2005/ 1 January 2006	214,784	1,303,499	4,420,461	216,676	6,155,420
Additions	-	415,307	312,718	-	728,025
Transfer to investment property (Note 4)	(214,784)	-	-	-	(214,784)
Disposals	-	(2,450)	(35,819)	-	(38,269)
Written-off	-	(252,098)	(147,286)	-	(399,384)
At 31 December 2006	-	1,464,258	4,550,074	216,676	6,231,008
<i>Accumulated depreciation</i>					
At 1 January 2005	-	486,677	3,570,733	134,276	4,191,686
Charge for the year	-	72,212	269,931	41,200	383,343
Written-off	-	-	(91,770)	-	(91,770)
At 31 December 2005/ 1 January 2006	-	558,889	3,748,894	175,476	4,483,259
Charge for the year	-	102,023	292,363	41,200	435,586
Disposals	-	(931)	(31,230)	-	(32,161)
Written-off	-	(130,564)	(138,445)	-	(269,009)
At 31 December 2006	-	529,417	3,871,582	216,676	4,617,675
<i>Carrying amount</i>					
At 1 January 2005	214,784	808,542	745,122	82,400	1,850,848
At 31 December 2005/ 1 January 2006	214,784	744,610	671,567	41,200	1,672,161
At 31 December 2006	-	934,841	678,492	-	1,613,333

Company No. 29123-D

3. Property, plant and equipment (continued)

Company	Furniture and fittings RM	Office equipment RM	Motor vehicles RM	Total RM
<i>Cost</i>				
At 1 January 2005	1,295,219	4,315,855	216,676	5,827,750
Additions	8,280	196,376	-	204,656
Written-off	-	(91,770)	-	(91,770)
At 31 December 2005/ 1 January 2006	1,303,499	4,420,461	216,676	5,940,636
Additions	415,307	312,718	-	728,025
Disposals	(2,450)	(35,819)	-	(38,269)
Written-off	(252,098)	(147,286)	-	(399,384)
At 31 December 2006	1,464,258	4,550,074	216,676	6,231,008
<i>Accumulated depreciation</i>				
At 1 January 2005	486,677	3,570,733	134,276	4,191,686
Charge for the year	72,212	269,931	41,200	383,343
Written-off	-	(91,770)	-	(91,770)
At 31 December 2005/ 1 January 2006	558,889	3,748,894	175,476	4,483,259
Charge for the year	102,023	292,363	41,200	435,586
Disposals	(931)	(31,230)	-	(32,161)
Written-off	(130,564)	(138,445)	-	(269,009)
At 31 December 2006	529,417	3,871,582	216,676	4,617,675
<i>Net book value</i>				
At 1 January 2005	808,542	745,122	82,400	1,636,064
At 31 December 2005/ 1 January 2006	744,610	671,567	41,200	1,457,377
At 31 December 2006	934,841	678,492	-	1,613,333

Company No. 29123-D

4. Investment property

	Group	
	2006 RM'000	2005 RM'000
At 1 January	-	-
Transfer from property, plant and equipment (Note 3)	214,784	-
At 31 December	<u>214,784</u>	<u>-</u>
Included in the above is:		
Freehold land – at cost	<u>214,784</u>	<u>-</u>
Fair value	<u>580,000</u>	<u>-</u>

5. Investment in subsidiary

	Company	
	2006 RM	2005 RM
Unquoted shares, at cost	<u>1,810,000</u>	<u>1,810,000</u>

Details of the subsidiary company are as follows:

Name of Company	Principal Activities	Country of Incorporation	Effective ownership interest	
			2006 %	2005 %
United Continental Properties Sdn. Bhd.*	Property investment	Malaysia	100	100

* Not audited by KPMG.

Company No. 29123-D

6. Investments

	Group and Company			
	2006	2005	2006	2005
	Cost RM	Market value RM	Cost RM	Market value RM
Malaysian Government Securities	22,808,000		20,351,815	
Amortisation of premiums	(181,293)		(733,831)	
	<u>22,626,707</u>	<u>22,820,250</u>	<u>19,617,984</u>	<u>19,816,880</u>
Quoted in Malaysia:				
Shares	26,350,736		31,529,422	
Warrants	24,870		6,078,196	
REITs	672,770		-	
Allowance for diminution in value	(1,399,043)		(6,537,607)	
Permanent diminution in value	(1,051,832)		(127,831)	
	<u>24,597,501</u>	<u>24,866,256</u>	<u>30,942,180</u>	<u>31,104,915</u>
Unquoted in Malaysia:				
Corporate bonds	5,100,000		6,164,400	
Amortisation of premium	-		(56,517)	
	<u>5,100,000</u>		<u>6,107,883</u>	
Fixed deposits with:				
Licensed banks	135,443,601		89,950,073	
Licensed finance companies	-		35,772,000	
	<u>135,443,601</u>		<u>125,722,073</u>	
Total Investments	<u>187,767,809</u>		<u>182,390,120</u>	
Investments maturing after twelve months:				
Malaysian Government Securities	12,445,014		12,934,360	
Corporate bonds	5,100,000		5,100,000	
	<u>17,545,014</u>		<u>18,034,360</u>	

Company No. 29123-D

7. Deferred tax asset

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

	Group and Company	
	2006	2005
	RM	RM
Deferred tax asset	3,537,000	4,406,000

Deferred tax liabilities and assets are offset as there is a legally enforceable right to set off current tax assets against current tax liabilities and that the deferred taxes relate to the same taxation authority.

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

	Group and Company	
	2006	2005
	RM	RM
Property, plant and equipment - capital allowances	(287,000)	(307,000)
Provisions	3,824,000	4,713,000
	<u>3,537,000</u>	<u>4,406,000</u>

8. Receivables

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
<i>Trade receivables</i>				
Outstanding premium including agents and brokers balances	22,628,435	22,725,967	22,628,435	22,725,967
Allowance for doubtful debts	(3,705,924)	(3,724,292)	(3,705,924)	(3,724,292)
	18,922,511	19,001,675	18,922,511	19,001,675
Amount due from reinsurers, ceding companies and co-insurers	14,908,642	12,059,335	14,908,642	12,059,335
Allowance for doubtful debts	(4,425,744)	(3,883,471)	(4,425,744)	(3,883,471)
	10,482,898	8,175,864	10,482,898	8,175,864

Company No. 29123-D

8. Receivables (continued)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Amount due from ultimate holding company	420	91,725	420	91,725
Allowance for doubtful debts	(420)	(2,850)	(420)	(2,850)
	-	88,875	-	88,875
Amount due from related companies	456,242	558,871	456,242	558,871
Allowance for doubtful debts	(85,081)	(100,360)	(85,081)	(100,360)
	371,161	458,511	371,161	458,511
<i>Other receivables</i>				
Other receivables, deposits and prepayments	3,033,449	2,519,808	3,034,990	2,507,891
Income due and accrued	1,516,430	1,187,745	1,476,149	1,167,417
	4,549,879	3,707,553	4,511,139	3,675,308
	34,326,449	31,432,478	34,287,709	31,400,233

The amounts receivable from the ultimate holding company and related companies are trade in nature, unsecured, interest free and have no fixed terms of repayment.

9. Cash and cash equivalents

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Call deposits with licensed banks	22,026,000	6,894,000	22,026,000	6,894,000
Cash and bank balances	1,152,150	2,447,212	1,143,233	2,433,335
Fixed deposits with licensed banks	3,194,000	3,127,000	-	-
	26,372,150	12,468,212	23,169,233	9,327,335

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10. Provision for outstanding claims

	Group and Company	
	2006	2005
	RM	RM
Provision for outstanding claims	107,037,669	104,004,525
Less: Recoverable from reinsurers thereon	(53,709,500)	(54,755,629)
Net outstanding claims	<u>53,328,169</u>	<u>49,248,896</u>

11. Payables

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Trade payables				
Amount due to reinsurers/ceding companies and co-insurers	26,688,092	25,358,290	26,688,092	25,358,290
Amount due to agents/brokers and insured	1,774,750	1,594,994	1,774,750	1,594,994
	<u>28,462,842</u>	<u>26,953,284</u>	<u>28,462,842</u>	<u>26,953,284</u>
Other payables and accrued liabilities	16,040,390	6,704,510	16,026,806	6,692,294
Amount due to ultimate holding company	50,802	-	50,802	-
Amounts due to related companies	8,479	7,006	8,479	7,006
	<u>44,562,513</u>	<u>33,664,800</u>	<u>44,548,929</u>	<u>33,652,584</u>

The amounts due to ultimate holding company and related companies arose from non-trade transactions which are unsecured, interest free and have no fixed terms of repayment.

Included in other payables and accrued liabilities of the Group and Company are cash collaterals retained for bond policies of RM9,948,483 (2005 – RM3,139,356).

12. Staff retirement gratuity

	Group and Company	
	2006	2005
	RM	RM
At 1 January	1,014,983	973,684
Provision for the year	97,669	132,863
Retirement benefits paid	(6,500)	(91,564)
At 31 December	<u>1,106,152</u>	<u>1,014,983</u>

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13. Unearned premium reserve

Group and Company	Group and Company				Total RM
	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscel- laneous RM	
2006					
At 1 January	4,677,942	11,132,653	1,137,555	9,758,098	26,706,248
Increase/(Decrease)	(768,882)	824,448	(532,386)	905,502	428,682
At 31 December	<u>3,909,060</u>	<u>11,957,101</u>	<u>605,169</u>	<u>10,663,600</u>	<u>27,134,930</u>
2005					
At 1 January	5,351,839	8,799,652	704,854	11,091,928	25,948,273
Increase/(Decrease)	(673,897)	2,333,001	432,701	(1,333,830)	757,975
At 31 December	<u>4,677,942</u>	<u>11,132,653</u>	<u>1,137,555</u>	<u>9,758,098</u>	<u>26,706,248</u>

14. Share capital

	Group and Company			
	2006		2005	
	No. of shares	RM	No. of shares	RM
Authorised:				
Ordinary shares of RM1.00 each	<u>300,000,000</u>	<u>300,000,000</u>	<u>300,000,000</u>	<u>300,000,000</u>
Issued and fully paid:				
Ordinary shares of RM1.00 each	<u>100,023,500</u>	<u>100,023,500</u>	<u>100,023,500</u>	<u>100,023,500</u>

15. Retained profits

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained profits at 31 December 2006 if paid out as dividend.

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16. Operating revenue

Group	Shareholders' fund RM	General business RM	Total RM
2006			
Gross premium	-	130,037,624	130,037,624
Investment income (Note 18)	1,169,543	6,065,395	7,234,938
	<u>1,169,543</u>	<u>136,103,019</u>	<u>137,272,562</u>
	=====	=====	=====
2005			
Gross premium	-	120,928,993	120,928,993
Investment income (Note 18)	1,092,251	5,357,989	6,450,240
	<u>1,092,251</u>	<u>126,286,982</u>	<u>127,379,233</u>
	=====	=====	=====
Company			
2006			
Gross premium	-	130,037,624	130,037,624
Investment income (Note 18)	1,063,404	6,065,395	7,128,799
	<u>1,063,404</u>	<u>136,103,019</u>	<u>137,166,423</u>
	=====	=====	=====
2005			
Gross premium	-	120,928,993	120,928,993
Investment income (Note 18)	996,860	5,357,989	6,354,849
	<u>996,860</u>	<u>126,286,982</u>	<u>127,283,842</u>
	=====	=====	=====

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17. Management expenses

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Insurance fund				
Staff salaries and related expenses	6,141,174	5,043,146	6,141,174	5,043,146
Directors' remuneration				
- fees	115,956	72,000	115,956	72,000
- other remuneration	96,000	96,000	96,000	96,000
Auditors' remuneration	60,000	45,000	60,000	45,000
Rental of offices and premises	773,932	875,396	773,932	875,396
Depreciation of property and equipment	435,586	383,343	435,586	383,343
Hire of equipment	81,349	470,347	81,349	470,347
Allowance for/(write back of) bad and doubtful debts	506,196	(951,115)	506,196	(951,115)
Bad debts written off	57,152	-	57,152	-
Other expenses	5,283,345	4,859,737	5,283,345	4,859,737
	<u>13,550,690</u>	<u>10,893,854</u>	<u>13,550,690</u>	<u>10,893,854</u>
Shareholders' fund				
Auditor's remuneration	1,500	2,500	-	-
Other expenses	5,785	14,658	-	-
	<u>7,285</u>	<u>17,158</u>	<u>-</u>	<u>-</u>
	<u><u>13,557,975</u></u>	<u><u>10,911,012</u></u>	<u><u>13,550,690</u></u>	<u><u>10,893,854</u></u>

The remuneration, including benefits-in-kind, attributable to the CEO of the Company for the year included in staff salaries of the Group and Company amounted to RM262,738 (2005 - RM221,000).

Included in other expenses are contributions to the Employees Provident Fund of RM559,414 (2005 - RM510,628) for the Group and Company.

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18. Investment income

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Insurance fund				
Interest income from:				
Malaysian Government Securities	1,269,276	1,040,354	1,269,276	1,040,354
Corporate bonds	406,993	405,397	406,993	405,397
Fixed and call deposits	3,370,980	2,674,622	3,370,980	2,674,622
Others	-	146,796	-	146,796
Gross dividends from:				
Shares quoted in Malaysia	999,378	1,076,721	999,378	1,076,721
Others	18,768	14,099	18,768	14,099
	<u>6,065,395</u>	<u>5,357,989</u>	<u>6,065,395</u>	<u>5,357,989</u>
Shareholders' fund				
Interest from fixed and call deposits	1,148,064	1,076,628	1,041,925	981,237
Gross dividends from:				
Shares quoted in Malaysia	21,479	15,623	21,479	15,623
	<u>1,169,543</u>	<u>1,092,251</u>	<u>1,063,404</u>	<u>996,860</u>
	<u><u>7,234,938</u></u>	<u><u>6,450,240</u></u>	<u><u>7,128,799</u></u>	<u><u>6,354,849</u></u>

19. Other income/(expenditure) - net

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Insurance fund				
Amortisation of premiums net of accretion of discounts of Government Securities and Corporate Bonds	(331,660)	(351,419)	(331,660)	(351,419)
Plant and equipment written off	(130,375)	-	(130,375)	-
Gain on foreign exchange	2,448	7,500	2,448	7,500
Gain on disposal of equipment	18,971	-	18,971	-
Gain on disposal of investments	2,330,327	545,232	2,330,327	545,232
(Provision for)/write back of permanent diminution in value of quoted investments	(979,591)	980,857	(979,591)	980,857

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19. Other income/(expenditure) – net (continued)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Write back of/(provision for) diminution in value of investments	5,138,564	(5,489,622)	5,138,564	(5,489,622)
Provision for staff retirement gratuity	(97,669)	(132,863)	(97,669)	(132,863)
Sundry expenses	(78,802)	(80,103)	(78,802)	(80,103)
	<u>5,872,213</u>	<u>(4,520,418)</u>	<u>5,872,213</u>	<u>(4,520,418)</u>
Shareholders' fund				
Gain on disposal of investments	77,403	3,841	77,403	3,841
Write back of/(Provision for) permanent diminution in value of quoted investments	55,590	(98,292)	55,590	(98,292)
Other income	-	6,648	-	-
Sundry expenses	(26,627)	(6,079)	(184)	(159)
Bad debts recovered	11,556	-	-	-
	<u>117,922</u>	<u>(93,882)</u>	<u>132,809</u>	<u>(94,610)</u>
	<u>5,990,135</u>	<u>(4,614,300)</u>	<u>6,005,022</u>	<u>(4,615,028)</u>

20. Tax expense

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Income tax expense				
Malaysian - current	3,525,788	2,846,187	3,504,663	2,830,387
- prior years	309,206	(495,398)	306,223	(506,221)
	<u>3,834,994</u>	<u>2,350,789</u>	<u>3,810,886</u>	<u>2,324,166</u>
Deferred tax expense				
- Origination and reversal of temporary differences	1,115,000	(1,233,000)	1,115,000	(1,233,000)
- Deferred tax assets under recognised in prior year	(246,000)	-	(246,000)	-
	<u>4,703,994</u>	<u>1,117,789</u>	<u>4,679,886</u>	<u>1,091,166</u>

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20. Tax expense (continued)

Reconciliation of effective tax expense

Group	2006 RM'000	2005 RM'000
Profit before tax	15,440	5,410
Income tax based on Malaysian tax rates	4,323	1,515
Non-deductible expenses	388	280
Tax exempt income	(62)	(75)
Other items	(8)	(107)
	<u>4,641</u>	<u>1,613</u>
Current tax under/(over) provision in prior years	309	(495)
Deferred tax asset under recognised in prior year	(246)	-
	<u>4,704</u>	<u>1,118</u>
Company		
Profit before tax	15,356	5,331
Income tax based on Malaysian tax rates	4,300	1,493
Non-deductible expenses	379	280
Tax exempt income	(59)	(75)
Other items	-	(101)
	<u>4,620</u>	<u>1,597</u>
Current tax under/(over) provision in prior years	306	(506)
Deferred tax asset under recognised in prior year	(246)	-
	<u>4,680</u>	<u>1,091</u>

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21. Earnings per share - Group

Earnings per ordinary share is calculated based on the Group profit for the year after tax of RM10,735,516 (2005 - RM4,292,462) divided by the number of ordinary shares in issue of 100,023,500 (2005 - 100,023,500) at the end of the year.

22. Net claims incurred

Group and Company

2006	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscel- laneous RM	Total RM
Gross claims paid less salvage	18,979,750	16,837,351	1,664,194	24,699,797	62,181,092
Reinsurances recoveries	(14,928,343)	(1,689,095)	(1,107,571)	(9,224,437)	(26,949,446)
Net claims paid	4,051,407	15,148,256	556,623	15,475,360	35,231,646
Net outstanding claims:					
At 31 December	4,794,044	27,469,029	1,948,020	19,117,076	53,328,169
At 1 January	(5,882,424)	(24,717,935)	(1,784,327)	(16,864,210)	(49,248,896)
Net claims incurred	2,963,027	17,899,350	720,316	17,728,226	39,310,919
2005					
Gross claims paid less salvage	15,692,096	12,631,979	832,725	19,091,754	48,248,554
Reinsurances recoveries	(12,444,157)	(1,116,370)	(320,514)	(6,022,069)	(19,903,110)
Net claims paid	3,247,939	11,515,609	512,211	13,069,685	28,345,444
Net outstanding claims:					
At 31 December	5,882,424	24,717,935	1,784,327	16,864,210	49,248,896
At 1 January	(4,848,439)	(20,223,649)	(1,478,861)	(13,402,333)	(39,953,282)
Net claims incurred	4,281,924	16,009,895	817,677	16,531,562	37,641,058

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23. Dividends

	Group and Company	
	2006	2005
	RM	RM
Ordinary share		
Final dividend paid of 7.5% in respect of financial year ended 31 December 2005 (2005 – 5%)	5,401,269	3,600,846
	<u>=====</u>	<u>=====</u>

A final dividend in respect of financial year ended 31 December 2006 of 9% less 27% taxation amounting to RM6,571,544 based on the issued and paid-up capital of 100,023,500 ordinary shares of RM1.00 each has been proposed by the Directors on 27 February 2007 and has not been accounted for in the financial statements for the year ended 31 December 2006.

The net dividend per ordinary share in the respective financial year as disclosed in the Income Statement of the Group and the Company is based on the dividends proposed and/or paid in respect of that particular year.

Accordingly, based on the above, the net dividend per ordinary share for the respective financial year is as follows:

	Net dividend per share	
	2006	2005
	Sen	Sen
9% less 27% taxation (2005 – 7.5% less 28% taxation)	6.57	5.40
	<u>=====</u>	<u>=====</u>

24. Other commitments and contingencies

In the normal course of business, the Group, mainly through the Company, makes various commitments and incurs certain liabilities on behalf of its customers. No material losses are anticipated as a result of these transactions. Details of the commitments and contingencies are as follows:

	Group and Company	
	2006	2005
	RM	RM
Performance bonds net of reinsurances	13,053,280	9,545,503
	<u>=====</u>	<u>=====</u>

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25. Related parties

The Company's controlling related party relationships are the holding and ultimate holding companies and their subsidiary companies.

Significant transactions with related parties are as follows:

	Group and Company	
	2006	2005
	RM	RM
Malayan United Industries Berhad and its wholly-owned subsidiaries		
Premium income	1,259,810	1,790,113
MUI Properties Berhad ("MPB") and its subsidiaries		
Premium income	80,977	96,666
Pan Malaysia Corporation Berhad ("PMC") and its subsidiaries		
Premium income	321,262	321,217
Pan Malaysia Holdings Berhad ("PMH") and its subsidiaries		
Premium income	465,373	338,494
Pan Malaysian Industries Berhad ("PMI") and its subsidiaries		
Premium income	185,750	162,673
Metrojaya Berhad ("MJB")		
Premium income	475,477	119,291
Malayan United Management Sdn Bhd ("MUMSB")		
Internal audit and secretarial services	(46,527)	(69,972)
Metrojaya Berhad ("MJB")		
Gift vouchers	(3,505)	(6,595)

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25. Related parties (continued)

	Group and Company	
	2006	2005
	RM	RM
Ming Court Hotel (KL) Sdn Bhd ("MCH(KL)") Hotel facilities and accommodation	(8,130)	(55,309)
Pan Malaysia Travel & Tours Sdn Bhd ("PMTT") Travelling	(46,538)	(28,817)
PM Securities Sdn Bhd ("PMS") Brokerage fees and disaster recovery charges	(42,407)	(6,020)
MUI Dotcom Sdn Bhd ("MDSB") Website development	(91,554)	(83,397)
PCB Asset Management Sdn Bhd ("PCBAM") Management fees	<u>(171,669)</u>	<u>(162,593)</u>

Note :

- (i) MPB, PMC and PMH are subsidiaries of MUI.
- (ii) PMI is the major shareholder of MUI.
- (iii) MJB is a subsidiary of PMI.
- (iv) MPSB is a subsidiary of MPB.
- (v) MUMSB, MCH(KL) and MDSB are wholly owned subsidiaries of MUI.
- (vi) PMTT is a subsidiary of PMH.
- (vii) PCBAM and PMS are subsidiaries of Pan Malaysia Capital Berhad which in turn is an associated company of PMH.

The Directors of the Company are of the opinion that the transactions have been transacted in the normal course of business and have been established under normal commercial terms and conditions.

26. Financial instruments

Financial risk management objectives and policies

Exposure to credit, interest rate, currency and liquidity risks arise in the normal course of the Group and Company's business. The Group and Company have risk management policies and guidelines which set out its overall business strategies, risk tolerance and general risk management philosophy.

Credit risk

Credit risk is the risk of loss if counterparties to insurance, reinsurance and investment transactions failed to perform or meet payment obligations as contracted. The Group and Company have credit policies in place to ensure that premiums from policyholders are duly collected. At balance sheet date, there were no significant concentrations of credit risks.

Interest rate risk

The Group and Company's earnings are affected by changes in market interest rates as such changes have an impact on interest income from cash and cash equivalents and investments. The Group and Company have investment policies and guidelines to monitor the Group and Company's investments.

Foreign currency risk

The Group and Company do not have significant foreign currency risk as operating transactions are mainly denominated in Ringgit Malaysia.

Liquidity risk

The Group and Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group and Company's operations and to mitigate the effects of fluctuations in cash flows.

Effective interest rates and repricing analysis

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

26. Financial instruments (continued)

Group	Average effective interest rate %	Total RM	Less than 1 year RM	Maturity					More than 5 years RM	
				1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM			
2006										
Financial assets										
Debt securities held to maturity:										
Malaysian government securities	4.83	22,626,707	10,181,693	4,972,456	7,472,558	-	-	-	-	-
Corporate bonds	6.79	5,100,000	-	-	-	-	5,000,000	-	100,000	-
Fixed and call deposits	3.55	160,663,601	160,663,601	-	-	-	-	-	-	-
		188,390,308	170,845,294	4,972,456	7,472,558	-	5,000,000	-	100,000	-
2005										
Financial assets										
Debt securities held to maturity:										
Malaysian government securities	6.36	19,617,984	6,683,624	5,467,667	4,955,930	2,510,763	-	-	-	-
Corporate bonds	6.79	6,107,883	1,007,883	-	-	-	-	-	5,100,000	-
Fixed and call deposits	2.70	135,743,073	135,743,073	-	-	-	-	-	-	-
		161,468,940	143,434,580	5,467,667	4,955,930	2,510,763	-	-	5,100,000	-

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26. Financial instruments (continued)

Company	Average effective interest rate %	Total RM	Less than 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	More than 5 years RM
2006								
Financial assets								
Debt securities held to maturity:								
Malaysian government securities	4.83	22,626,707	10,181,693	4,972,456	7,472,558	-	-	-
Corporate bonds	6.79	5,100,000	-	-	-	-	5,000,000	100,000
Fixed and call deposits	3.55	157,469,601	157,469,601	-	-	-	-	-
		<u>185,196,308</u>	<u>167,651,294</u>	<u>4,972,456</u>	<u>7,472,558</u>	<u>-</u>	<u>5,000,000</u>	<u>100,000</u>
2005								
Financial assets								
Debt securities held to maturity:								
Malaysian government securities	6.36	19,617,984	6,683,624	5,467,667	4,955,930	2,510,763	-	-
Corporate bonds	6.79	6,107,883	1,007,883	-	-	-	-	5,100,000
Fixed and call deposits	2.70	132,616,073	132,616,073	-	-	-	-	-
		<u>158,341,940</u>	<u>140,307,580</u>	<u>5,467,667</u>	<u>4,955,930</u>	<u>2,510,763</u>	<u>-</u>	<u>5,100,000</u>

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26. Financial instruments (continued)

Fair values

Recognised financial instruments

The aggregate fair values of financial assets carried on the balance sheet as at 31 December are represented in the following table.

Group and Company	2006		2005	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Financial assets				
Malaysian government securities	22,626,707	22,820,250	19,617,984	19,816,880
Unquoted debt securities - long term				
corporate bonds	5,100,000	5,423,000	6,107,883	6,450,800
Quoted shares	23,918,631	24,142,326	25,232,494	25,355,600
Quoted warrants	24,870	69,930	5,709,686	5,749,315
Other investments – REITs	654,000	654,000	-	-

The fair value of quoted securities is the closing market price at the balance sheet date. For Malaysian government securities and corporate bonds, fair values are indicative prices at the balance sheet date. In respect of cash and cash equivalents, receivables and payables, the carrying amounts approximate their fair values due to the relatively short term nature of these financial instruments.

The Directors regard the net tangible asset of the unquoted subsidiary to approximate the fair value. The subsidiary's net tangible asset is RM3,454,000 (2005 - RM3,394,000) based on audited financial statements of the subsidiary as at 31 December 2006.