

Company No:
29123 - D

MUI CONTINENTAL INSURANCE BERHAD

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

Financial statements - 31 December 2008
Together with Reports of the Directors and Auditors
(In Ringgit Malaysia)

Company No:
29123 - D

MUI Continental Insurance Berhad

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

Reports and financial statements for the year ended 31 December 2008

CONTENTS	PAGE
Directors' report	1 - 9
Statement by Directors	10
Statutory declaration	10
Independent auditors' report	11 - 12
Group balance sheet	13
Group income statement	14
Group statement of changes in equity	15
Group cash flow statement	16 - 17
Balance sheet	18
Income statement	19
Statement of changes in equity	20
General insurance revenue account	21 - 22
Cash flow statement	23 - 24
Notes to the financial statements	25 - 58

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

Directors' reports

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 2008.

Principal activities

The Company is principally engaged in the general insurance business of all classes. There has been no change in the principal activity of the Company during the financial year. The principal activity of the subsidiary is disclosed in Note 8 to the financial statements.

Results

	Group RM	Company RM
Profit for the financial year	<u>3,243,402</u>	<u>3,135,682</u>

Dividends

As proposed and included in the last year's report, a final gross dividend of 10% less tax amounting to RM7,401,739 for the financial year ended 31 December 2007 was paid on 27 June 2008.

The Board of Directors proposed a final dividend of 6% less 25% tax totaling RM4,501,058 in respect of the financial year ended 31 December 2008.

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.

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

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

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.

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 provision for doubtful debts, and have satisfied themselves that there are no known bad debts and that adequate provision had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would necessitate the writing off of bad debts or render the amount of the provision for doubtful debts inadequate to any material extent.

Current assets

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

Contingent and other liabilities (continued)

No contingent liability or other liability 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 Group and of the Company to meet their obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group and 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 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 2008 have not been substantially affected by any item, transaction or event of a material and unusual nature.

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

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 as follows:-

<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	5/6
Dato' Tee Tiam Lee	5/6
Dato' Leong Kok Wah	6/6
Dr Ngui Chon Hee	5/6
Tan Lian Tee	5/6
Lai Chee Leong	6/6
Chan Choung Yau	6/6

Directors' interests in shares and/or 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:

	Number of ordinary shares				Balance as at 31.12.2008
	Nominal value per share	Balance as at 1.1.2008	Bought	Sold	
Shareholdings in which Directors have direct interests					
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 ("MUI")	RM1.00	100,000	-	-	100,000
Interest of Dr Ngui Chon Hee in: MUI Properties Berhad ("MPB")	RM0.20	30,000	-	-	30,000
	Number of ordinary shares				
	Nominal value per share	Balance as at 1.1.2008	Bought	Sold	Balance as at 31.12.2008
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	904,732,500	253,591,000	(244,571,000)	913,752,500
MPB	RM0.20	550,862,661	-	-	550,862,661
Pan Malaysia Corporation Berhad	RM0.50	428,544,500	-	-	428,544,500
Pan Malaysia Holdings Berhad	RM0.10	638,572,986	-	-	638,572,986
Metrojaya Berhad	RM1.00	117,443,633	624,500	-	118,068,133
Indirect interest of Dato' Leong Kok Wah in: Company	RM1.00	4,501,057	-	-	4,501,057
Indirect interest of Dr Ngui Chon Hee in: MPB	RM0.20	84,000	-	-	84,000

Directors' interests in shares and/or securities (continued)

	Nominal Value			Balance as at 31.12.2008 RM
	Balance as at 1.1.2008 RM	Bought RM	Sold RM	
Deemed interest of Tan Sri Dato' Khoo Kay Peng in:				
Irredeemable Convertible Unsecured Loan Stocks ("ICULS") of MUI				
Class A1 ICULS	166,739,917	6,690,000	-	173,429,917
Class A2 ICULS	202,222,917	12,950,000	-	215,172,917
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 and associates 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.

Directors' benefits

Since the end of the previous financial year, no Directors of the Company have received or become entitled to receive a 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 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 where certain Directors may benefit from transactions as disclosed in Note 28 to the financial statements.

There were no arrangements during and at the end of the financial year, to which the Company is a party, which had the object of enabling the 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.

Statement on corporate governance and internal controls

The Company is committed to uphold good corporate governance practices in conformity with the Bank Negara Malaysia (“BNM”) Guidelines JPI/GPI 25 : Prudential Framework of Corporate Governance for Insurers. Towards this end, the Company has generally complied with the prescriptive applications and adopted management practices which are consistent with the above guidelines.

The Board has established specialised Board Committees to assist it to effectively carry out its responsibilities and to provide an oversight over the Company’s operations. These Board Committees, established on 25 June 2003, were namely, the Risk Management Committee, the Nominating Committee and the 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 functioning effectively by aligning it with accepted best practices.

Composition of the Risk Management Committee is as follows:

Tan Sri Datuk Seri Abu Talib bin Othman - Chairman
Independent Non-Executive Director

Dato’ Tee Tiam Lee
Non-Independent Non-Executive Director

Dr Ngui Chon Hee
Non-Independent Non-Executive Director

Through its risk management framework and overall business strategies, the Company seeks to effectively manage the core risks which arise directly from its commercial activities in the ordinary course of business.

The Company’s risk management framework is guided by the following risk management practices:

- assigning various levels of approving authorities and adherence to strict controls such as segregation of duties, establishment of performance measurement and formulating a system of internal controls;
- abiding by all applicable laws, regulations and governance standards; and
- managing risks within quantifiable parameters, risk tolerance and control standards, whenever possible.

In addition to the above, the financial risk management objectives and policies are disclosed in Note 29 to the financial statements.

The Risk Management Committee provides an objective oversight of the above risk management functions.

During the financial year ended 31 December 2008, three (3) Risk Management Committee Meetings were held. Tan Sri Datuk Seri Abu Talib bin Othman, Dato’ Tee Tiam Lee and Dr Ngui Chon Hee attended all the three (3) meetings.

Statement on corporate governance and internal controls (continued)

Nominating Committee

The Nominating 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. The Committee will also carry out assessment of retiring Directors and duly recommend them to the Board for their reappointments and to cause the necessary applications to be made to Bank Negara Malaysia.

Composition of the Nominating Committee is as follows:

Tan Sri Datuk Seri Abu Talib bin Othman - Chairman
Independent Non-Executive Director

Tan Sri Dato' Khoo Kay Peng
Non-Independent Non-Executive Director

Dr Ngui Chon Hee
Non-Independent Non-Executive Director

Tan Lian Tee
Non-Independent Non-Executive Director

Chan Choung Yau
Non-Independent Non-Executive Director

During the financial year ended 31 December 2008, three (3) Nominating Committee Meetings were held. Tan Sri Datuk Seri Abu Talib bin Othman, Tan Sri Dato' Khoo Kay Peng, Ms Tan Lian Tee and Mr Chan Choung Yau attended all the meetings, whereas Dr Ngui Chon Hee attended two (2) of them.

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 - Chairman
Independent Non-Executive Director

Dato' Tee Tiam Lee
Non-Independent Non-Executive Director

Dr Ngui Chon Hee
Non-Independent Non-Executive Director

Chan Choung Yau
Non-Independent Non-Executive Director (appointed on 18 April 2008)

During the financial year ended 31 December 2008, one (1) Remuneration Committee Meeting was held, which was attended by Tan Sri Datuk Seri Abu Talib bin Othman, Dato' Tee Tiam Lee, Dr Ngui Chon Hee and Mr Chan Choung Yau.

Statement on corporate governance and internal controls (continued)

Audit Committee

The Audit Committee's Terms of Reference are in compliance with JPI/GPI 13 : Guidelines on Audit Committee and Internal Audit Departments for Insurance Companies. It assists the Board in fulfilling the oversight of the Company's financial statements, financial reporting process, the system of internal audit process and also the Company's process for monitoring compliance with legal and regulatory requirements. The Audit Committee also reviews the performance of the internal auditor and evaluates the independence and objectivity of the external auditors including the yearly audit plan.

Composition of the Audit Committee is as follows:

Tan Sri Dato' Paduka Dr Mazlan bin Ahmad – Chairman (appointed as member on 26 February 2008 and appointed as Chairman on 25 June 2008)
Independent Non-Executive Director

Dato' Leong Kok Wah
Independent Non-Executive Director

Chan Choung Yau
Non-Independent Non-Executive Director

Tan Sri Datuk Seri Abu Talib bin Othman (resigned as member and Chairman on 25 June 2008)
Independent Non-Executive Director

During the financial year ended 31 December 2008, six (6) Audit Committee Meetings were held. Tan Sri Dato' Paduka Dr Mazlan bin Ahmad attended four (4) meetings out of five (5) meetings held since his appointment, whereas Dato' Leong Kok Wah attended five (5) of the meetings. Mr Chan Choung Yau attended all the meetings held.

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, BDO Binder, have expressed their willingness to continue in office.

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

Tan Sri Datuk Seri Abu Talib bin Othman
Director

Chan Choung Yau
Director

Kuala Lumpur
27 February 2009

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 13 to 58 have been drawn up in accordance with applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and of the results of the operations of the Group and of the Company and of the cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board,

Tan Sri Datuk Seri Abu Talib bin Othman
Director

Chan Choung Yau
Director

Kuala Lumpur,
27 February 2009

STATUTORY DECLARATION

I, Wong Kim Teck, being the officer primarily responsible for the financial management of MUI Continental Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 13 to 58 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur this
27 February 2009

Wong Kim Teck

Before me:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUI CONTINENTAL INSURANCE BERHAD

Report on the Financial Statements

We have audited the financial statements of MUI Continental Insurance Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 58.

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 applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965. 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.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and of the results of the operations of the Group and of the Company and of the cash flows of the Group and of the Company for the financial year then ended.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MUI CONTINENTAL INSURANCE BERHAD (continued)**

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) 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 purpose of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) The audit reports on the financial statements of the subsidiary did not contain any qualification or any adverse comment made under Section 174(3) 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 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO Binder
AF : 0206
Chartered Accountants

Gan Hock Soon
2853/07/10
Partner

Kuala Lumpur
27 February 2009

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

Group balance sheet as at 31 December 2008

		Group	
	Note	2008 RM	2007 RM
Assets			
Property, plant and equipment	7	1,600,638	1,574,621
Goodwill on consolidation		145,887	145,887
Investment properties	9	24,917,092	25,117,092
Other investments	10	211,899,945	199,913,989
Deferred tax asset	11	2,441,000	2,264,000
Receivables	12	54,148,301	38,411,191
Tax recoverable		1,395,639	880
Cash and cash equivalents	13	<u>35,040,719</u>	<u>35,350,363</u>
Total assets		<u><u>331,589,221</u></u>	<u><u>302,778,023</u></u>
Liabilities			
Provision for outstanding claims	14	74,312,650	64,064,947
Payables	15	90,817,256	72,401,975
Staff retirement gratuity	16	978,762	1,529,538
Tax payable		<u>49,188</u>	<u>614,053</u>
Total liabilities		<u><u>166,157,856</u></u>	<u><u>138,610,513</u></u>
Insurance reserve			
Unearned premium reserve	17	<u>38,190,129</u>	<u>32,767,937</u>
Shareholders' equity:			
Share capital	18	100,023,500	100,023,500
Reserves	19	<u>27,217,736</u>	<u>31,376,073</u>
		<u>127,241,236</u>	<u>131,399,573</u>
Total liabilities and shareholders' equity		<u><u>331,589,221</u></u>	<u><u>302,778,023</u></u>

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

Group income statement
For the financial year ended 31 December 2008

		Group	
	Note	2008 RM	2007 RM
Operating revenue	21	<u>203,860,402</u>	<u>173,426,518</u>
Shareholders' fund			
Investment income	22	1,259,511	1,292,306
Other operating (expenditure)/ income - net	23	(145)	487,237
Management expenses	27	<u>(505,534)</u>	<u>(22,166)</u>
		753,832	1,757,377
Transfer from insurance revenue account		<u>3,447,311</u>	<u>14,005,227</u>
Profit before tax		4,201,143	15,762,604
Tax expense	24	<u>(957,741)</u>	<u>(5,246,845)</u>
Profit for the financial year		<u>3,243,402</u>	<u>10,515,759</u>
Dividend per ordinary share - net (sen)	25	<u>4.50</u>	<u>7.40</u>

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

Group statement of changes in equity For the financial year ended 31 December 2008

Group

	Share capital RM	<u>Non distributable</u> Share premium RM	<u>Distributable</u> Retained earnings RM	Total RM
Balance as at 31 December 2006	100,023,500	980,000	26,451,858	127,455,358
Profit for the financial year, representing total recognised income and expense for the financial year	-	-	10,515,759	10,515,759
Dividend paid (Note 25)	-	-	(6,571,544)	(6,571,544)
Balance as at 31 December 2007	100,023,500	980,000	30,396,073	131,399,573
Profit for the financial year, representing total recognised income and expense for the financial year	-	-	3,243,402	3,243,402
Dividend paid (Note 25)	-	-	(7,401,739)	(7,401,739)
Balance as at 31 December 2008	<u>100,023,500</u>	<u>980,000</u>	<u>26,237,736</u>	<u>127,241,236</u>

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

Group cash flow statement For the financial year ended 31 December 2008

	Note	2008 RM	Group 2007 RM
Cash flows from operating activities			
Profit before tax		4,201,143	15,762,604
Adjustments for:			
Allowance for doubtful debts no longer required (Accretion of discounts)/ Amortisation of premiums of Malaysian Government Securities and Corporate Bonds – net	27	(209,921)	(1,246,731)
Bad debts written off	23	(55,429)	152,198
Depreciation and adjustment of property, plant and Equipment	27	-	576,219
Loss/ (Gain) on disposal of investments	23	419,410	367,883
Gain on disposal of property, plant and equipment	23	7,592,294	(3,565,010)
Increase in unearned premium reserve	23	(55,000)	(980)
Investment income	17	5,422,192	5,633,007
Property, plant and equipment written off (Write back of)/ Provision for retirement gratuity	22	(10,073,971)	(9,233,693)
Provision for/ (Write back of) diminution in value of quoted investments	23	126,257	1,683
	23	(550,776)	423,386
	23	<u>1,584,020</u>	<u>(2,273,191)</u>
Profit from operations before changes in operating assets and liabilities		8,400,219	6,597,375
Increase in receivables		(11,176,185)	(3,316,975)
Increase in outstanding claims		10,247,703	10,736,778
Increase in payables		<u>18,327,031</u>	<u>27,896,554</u>
Cash generated from operations		25,798,768	41,913,732
Tax paid		(2,874,182)	(3,591,685)
Tax refunded		<u>4,069</u>	<u>-</u>
Net cash from operating activities		22,928,655	38,322,047

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

Group cash flow statement

For the financial year ended 31 December 2008 (continued)

	Note	Group 2008 RM	Group 2007 RM
Cash flows from investing activities			
Purchase of investment		(52,457,369)	(17,515,036)
Proceeds from redemption and disposal of investments		30,866,230	20,212,095
Increase in fixed deposits		(3,271,205)	(9,592,452)
Purchase of investment property		-	(25,117,092)
Investment income received			
- Dividend		1,096,249	905,644
- Interest		7,231,085	7,645,274
- Rental income, net of rates and maintenance		1,215,134	426,243
Proceeds from disposal of investment property		-	650,000
Proceeds from disposal of property, plant and equipment		55,000	3,698
Purchase of property, plant and equipment		(571,684)	(390,664)
Net cash used in investing activities		(15,836,560)	(22,772,290)
Cash flow from financing activity			
Dividends paid		(7,401,739)	(6,571,544)
Net cash used in financing activity		(7,401,739)	(6,571,544)
Net (decrease)/ increase in cash and cash equivalents		(309,644)	8,978,213
Cash and cash equivalents at beginning of financial year		35,350,363	26,372,150
Cash and cash equivalents at end of financial year	13	35,040,719	35,350,363

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

Balance sheet as at 31 December 2008

	Note	Company	
		2008 RM	2007 RM
Assets			
Property, plant and equipment	7	1,600,638	1,574,621
Investment in a subsidiary	8	1,810,000	1,810,000
Investment property	9	24,917,092	25,117,092
Other investments	10	211,899,945	199,913,989
Deferred tax asset	11	2,441,000	2,264,000
Receivables	12	54,067,189	38,341,281
Tax recoverable		1,395,639	-
Cash and cash equivalents	13	<u>31,030,522</u>	<u>31,438,350</u>
Total assets		<u><u>329,162,025</u></u>	<u><u>300,459,333</u></u>
Liabilities			
Provision for outstanding claims	14	74,312,650	64,064,947
Payables	15	90,803,572	72,388,399
Staff retirement gratuity	16	978,762	1,529,538
Tax payable		<u>-</u>	<u>565,543</u>
Total liabilities		<u><u>166,094,984</u></u>	<u><u>138,548,427</u></u>
Insurance reserve			
Unearned premium reserve	17	<u>38,190,129</u>	<u>32,767,937</u>
Shareholders' equity:			
Share capital	18	100,023,500	100,023,500
Reserves	19	<u>24,853,412</u>	<u>29,119,469</u>
		<u>124,876,912</u>	<u>129,142,969</u>
Total liabilities and shareholder's equity		<u><u>329,162,025</u></u>	<u><u>300,459,333</u></u>

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

Income statement
For the financial year ended 31 December 2008

	Note	Company	
		2008 RM	2007 RM
Operating revenue	21	<u>203,718,876</u>	<u>173,292,327</u>
Shareholders' fund			
Investment income	22	1,117,985	1,158,115
Other operating (expenditure)/ income - net	23	(145)	55,438
Management expenses	27	<u>(500,000)</u>	<u>-</u>
		617,840	1,213,553
Transfer from insurance revenue account		<u>3,447,311</u>	<u>14,005,227</u>
Profit before tax		4,065,151	15,218,780
Tax expense	24	<u>(929,469)</u>	<u>(5,220,549)</u>
Profit for the financial year		<u>3,135,682</u>	<u>9,998,231</u>
Dividend per ordinary share - net (sen)	25	<u>4.50</u>	<u>7.40</u>

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

Statement of changes in equity For the financial year ended 31 December 2008

Company

	Share capital RM	<u>Non distributable</u> Share premium RM	<u>Distributable</u> Retained earnings RM	Total RM
Balance as at 31 December 2006	100,023,500	980,000	24,712,782	125,716,282
Profit for the financial year, representing total recognised income and expense for the financial year	-	-	9,998,231	9,998,231
Dividend paid (Note 25)	-	-	(6,571,544)	(6,571,544)
Balance as at 31 December 2007	100,023,500	980,000	28,139,469	129,142,969
Profit for the financial year, representing total recognised income and expense for the financial year	-	-	3,135,682	3,135,682
Dividend paid (Note 25)	-	-	(7,401,739)	(7,401,739)
Balance as at 31 December 2008	<u>100,023,500</u>	<u>980,000</u>	<u>23,873,412</u>	<u>124,876,912</u>

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

General insurance revenue account
For the financial year ended 31 December 2008

Group and Company

	Note	Fire		Motor		Marine Aviation & Transit		Miscellaneous		Total	
		2008 RM	2007 RM	2008 RM	2007 RM	2008 RM	2007 RM	2008 RM	2007 RM	2008 RM	2007 RM
Gross premium	21	41,917,870	36,115,601	48,054,803	37,912,005	17,473,988	22,443,173	86,339,770	67,722,046	193,786,431	164,192,825
Less: Reinsurance		(29,278,512)	(23,870,240)	(7,972,100)	(5,372,829)	(15,019,025)	(20,698,561)	(57,512,379)	(41,071,610)	(109,782,016)	(91,013,240)
Net premium (Increase)/Decrease in unearned premium reserve	17	12,639,358	12,245,361	40,082,703	32,539,176	2,454,963	1,744,612	28,827,391	26,650,436	84,004,415	73,179,585
		(1,050,632)	(526,723)	(3,672,719)	(3,437,906)	(208,797)	(350,193)	(490,044)	(1,318,185)	(5,422,192)	(5,633,007)
Earned premium		11,588,726	11,718,638	36,409,984	29,101,270	2,246,166	1,394,419	28,337,347	25,332,251	78,582,223	67,546,578
Net claims incurred	26	(5,231,946)	(6,147,863)	(30,545,733)	(27,510,240)	(1,041,541)	(1,211,215)	(18,449,872)	(14,550,944)	(55,269,092)	(49,420,262)
Net commission		(807,727)	(182,608)	(3,905,782)	(3,158,489)	652,323	1,129,781	(1,892,962)	(2,099,073)	(5,954,148)	(4,310,389)
		(6,039,673)	(6,330,471)	(34,451,515)	(30,668,729)	(389,218)	(81,434)	(20,342,834)	(16,650,017)	(61,223,240)	(53,730,651)
Underwriting surplus/ (deficit) before management expenses		5,549,053	5,388,167	1,958,469	(1,567,459)	1,856,948	1,312,985	7,994,513	8,682,234	17,358,983	13,815,927

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

General insurance revenue account
For the financial year ended 31 December 2008 (continued)

Group and Company

	Note	Fire		Motor		Marine Aviation & Transit		Miscellaneous		Total	
		2008 RM	2007 RM	2008 RM	2007 RM	2008 RM	2007 RM	2008 RM	2007 RM	2008 RM	2007 RM
Underwriting surplus/ (deficit) before management expenses		5,549,053	5,388,167	1,958,469	(1,567,459)	1,856,948	1,312,985	7,994,513	8,682,234	17,358,983	13,815,927
Management expenses	27									(14,376,558)	(12,610,722)
Underwriting surplus										2,982,425	1,205,205
Investment income	22									8,814,460	7,941,387
Other (expenditure)/ income - net	23									(8,349,574)	4,858,635
Transfer to income statement										3,447,311	14,005,227

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

Cash flow statement
For the financial year ended 31 December 2008

		Company	
	Note	2008 RM	2007 RM
Cash flows from operating activities			
Profit before tax		4,065,151	15,218,780
Adjustments for:			
Allowance for doubtful debts no longer required (Accretion of discounts)/ amortisation of premiums of Malaysian Government Securities and Corporate Bonds - net	27	(209,921)	(1,246,731)
Bad debts written off	23	(55,429)	152,198
Depreciation and adjustment of property, plant and equipment	27	-	576,219
Loss/(Gain) on disposal of investments	27	419,410	367,883
Gain on disposal of property, plant and equipment	23	7,592,294	(3,129,794)
Increase in unearned premium reserve	23	(55,000)	(980)
Investment income	17	5,422,192	5,633,007
Property, plant and equipment written off (Write back of)/ Provision for retirement gratuity	22	(9,932,445)	(9,099,502)
Provision for/(Write back of) diminution in value of quoted investments	23	126,257	1,683
		(550,776)	423,386
	23	<u>1,584,020</u>	<u>(2,273,191)</u>
Profit from operations before changes in operating and liabilities		8,405,753	6,622,958
Increase in receivables		(11,164,983)	(3,245,524)
Increase in outstanding claims		10,247,703	10,736,778
Increase in payables		<u>18,326,923</u>	<u>27,896,562</u>
Cash generated from operations		25,815,396	42,010,774
Tax paid		<u>(2,843,399)</u>	<u>(3,573,351)</u>
Net cash from operating activities		22,971,997	38,437,423

MUI Continental Insurance Berhad
(Incorporated in Malaysia)

Cash flow statement
For the financial year ended 31 December 2008 (continued)

	Note	Company	
		2008 RM	2007 RM
Cash flows from investing activities			
Purchase of investment property		-	(25,117,092)
Purchase of investments		(52,457,369)	(17,515,036)
Proceeds from redemption and disposal of investment		30,866,230	20,212,095
Increase in fixed deposits		(3,271,205)	(9,592,452)
Investment income received			
- Dividend		1,096,249	905,644
- Interest		7,089,559	7,470,802
- Rental income, net of rates and maintenance		1,215,134	426,243
Proceeds from disposal of property, plant and equipment		55,000	3,698
Purchase of property, plant and equipment		(571,684)	(390,664)
Net cash used in investing activities		(15,978,086)	(23,596,762)
Cash flow from financing activity			
Dividends paid		(7,401,739)	(6,571,544)
Net cash used in financing activity		(7,401,739)	(6,571,544)
Net (decrease)/ increase in cash and cash equivalents		(407,828)	8,269,117
Cash and cash equivalents at beginning of financial year		31,438,350	23,169,233
Cash and cash equivalents at end of financial year	13	31,030,522	31,438,350

The accompanying notes form an integral part of the financial statements.

MUI Continental Insurance Berhad

(Incorporated in Malaysia)

Notes to the financial statements

1. Corporate information

MUI Continental Insurance Berhad is a public limited liability company, incorporated and domiciled in Malaysia.

The address of its registered office is 5th Floor, Menara PMI, No. 2, Jalan Changkat Ceylon, 50200 Kuala Lumpur, Malaysia.

The address of its principal place of business is Mezzanine & 1st Floor, Plaza See Hoy Chan, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia

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

The financial statements are presented in Ringgit Malaysia ('RM'), which is also the Company's functional currency.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 27 February 2009.

2. Principal activities

The Company is principally engaged in the general insurance business of all classes. There has been no change in the principal activity of the Company during the financial year. The principal activity of the subsidiary is disclosed in Note 8 to the financial statements.

3. Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved Financial Reporting Standards ('FRSs') in Malaysia and the provisions of the Companies Act 1965, the Insurance Act, 1996, Insurance Regulations, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia.

4. Significant accounting policies

4.1 Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

4. Significant accounting policies (continued)

4.1 Basis of accounting (continued)

The preparation of financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Note 6 to the financial statements. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary made up to the end of the financial year using the purchase method of accounting.

Under the purchase method of accounting, the cost of business combination is measured at the aggregate of fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued plus any costs directly attributable to the business combination.

At the acquisition date, the cost of business combination is allocated to identifiable assets acquired, liabilities assumed and contingent liabilities in the business combination which are measured initially at their fair values at the acquisition date. The excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the cost of business combination is less than the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, the Group will:

- a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the business combination; and
- b) recognise immediately in profit or loss any excess remaining after that reassessment.

When a business combination includes more than one exchange transaction, any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group is accounted for as a revaluation.

The subsidiary is consolidated from the acquisition date, which is the date on which the Company effectively obtains control, until the date on which the Company ceases to control the subsidiary. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the existence and effect of potential voting rights that are currently convertible or exercisable are taken into consideration.

4. Significant accounting policies (continued)

4.2 Basis of consolidation (continued)

Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

The gain or loss on disposal of a subsidiary, which is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal including the carrying amount of goodwill and the cumulative amount of any exchange differences that relate to the subsidiary, is recognised in the consolidated income statement.

Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Company. It is measured at the minority's share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minority's share of changes in the subsidiaries' equity since that date.

Where losses applicable to the minority in a subsidiary exceed the minority's interest in the equity of that subsidiary, the excess and any further losses applicable to the minority are allocated against the Company's interest except to the extent that the minority has a binding obligation and is able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the Company's interest until the minority's share of losses previously absorbed by the Company has been recovered.

Minority interest is presented in the consolidated balance sheet within equity and is presented in the consolidated statement of changes in equity separately from equity attributable to equity holders of the Company.

Minority interest in the results of the Group is presented in the consolidated income statement as an allocation of the total profit or loss for the financial year between minority interest and equity holders of the Company.

When the Group purchases a subsidiary's equity from minority interests for cash consideration and the purchase price is established at fair value, the accretion of the Group's interest in the subsidiary is treated as purchases of equity interest for which the acquisition method of accounting is applied.

However, the changes of the Group's interest in a subsidiary that does not satisfy the conditions of cash and fair value as described in the preceding paragraph are treated as equity transactions. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid is adjusted to or against group reserves.

4. Significant accounting policies (continued)

4.3 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and Company and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group and Company is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost or valuation of the assets to their residual values on a straight line basis over their estimated useful lives. The principal depreciation rates are as follows:

Furniture and fittings	6.0% - 7.5%
Office equipment	7.5% - 20.0%
Motor vehicles	20.0%

At each balance sheet date, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 4.7 to the financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss and the revaluation surplus related to those assets, if any, is transferred directly to retained earnings.

4. Significant accounting policies (continued)

4.4 Investment properties

Investment properties are properties which are held to earn rentals or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of 50 years for buildings. Freehold land is not depreciated.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

4.5 Investments

a) Subsidiary

A subsidiary is an entity in which the Group and the Company have power to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. On disposal of such an investment, the difference between the net disposal proceeds and its carrying amount is included in profit or loss.

b) Other 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. The amortisation of premiums and accretion of discounts are recognised in the revenue account, and are calculated on a straight line basis over the period from the date of acquisition to the date of maturity of the securities.

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments. Specific allowance for diminution in value 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.

All other unquoted investments 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.

Upon disposal of such investment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

4. Significant accounting policies (continued)

4.6 Intangible assets

Goodwill

Goodwill acquired in a business combination is recognised as an asset at the acquisition date and is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortised but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4.7 Impairment of non-financial assets

The carrying amount of assets, except for financial assets (the financial assets in this context do not include investment in subsidiary) and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

The recoverable amount of an asset is estimated for an individual asset. Where it is not probable to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ('CGU') to which the asset belongs. Goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's CGU or groups of CGU that are expected to benefit from the synergies of the combination giving rise to the goodwill irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal 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 which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately except for the impairment on a revalued asset where the impairment loss is recognised directly against the revaluation reserve to the extent of the surplus credited from the previous revaluation for the same asset with the excess of the impairment loss charged to profit or loss.

4. Significant accounting policies (continued)

4.7 Impairment of non-financial assets (continued)

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss for other assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

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.

Such reversals are recognised as income immediately in profit or loss except for the reversal of an impairment loss on a revalued asset where the reversal of the impairment loss is treated as a revaluation increase and credited to the revaluation reserve account of the same asset. However, to the extent that an impairment loss in the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.

4.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group and Company.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group and Company.

4.8.1 Financial instruments recognised on the balance sheets

Financial instruments are recognised on the balance sheet when the Group and Company has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument are debited directly to equity, net of any related tax effect. Financial instruments are offset when the Group and Company has a legally enforceable right to offset and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

4. Significant accounting policies (continued)

4.8 Financial instruments (continued)

4.8.1 Financial instruments recognised on the balance sheets (continued)

a) Receivables

Trade receivables and other receivables, including amounts owing by related parties, are classified as loans and receivables under FRS 132 *Financial Instruments: Disclosure and Presentation*.

Receivables are carried at anticipated realisable value. 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, for motor premiums which remain outstanding for more than 30 days and for all debts which are considered doubtful.

Receivables are not held for trading purposes.

b) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits and other short term, highly liquid investments with original maturities of three (3) months or less, which are readily convertible to cash and are subject to insignificant risk of changes in value.

c) Payables

Liabilities for trade and other amounts payable, including amounts owing to related parties are initially recognised at fair value of the consideration to be paid in the future for goods and services received, and subsequently measured at amortised cost using the effective interest method.

d) Equity instruments

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Dividends to shareholders are recognised in equity in the period in which they are declared.

4.8.2 Financial instruments not recognised on the balance sheets

There were no financial instruments not recognised on the balance sheets.

4. Significant accounting policies (continued)

4.9 Income taxes

Income taxes include all domestic and foreign taxes on taxable profit.

Taxes in the income statement comprises current tax and deferred tax.

a) Current tax

Current tax is the amount of income taxes payable or receivable in respect of the taxable profit or loss for a period.

Current tax for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the balance sheet date.

b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profits will be available, such reductions will be reversed to the extent of the taxable profits.

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

Deferred tax will be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

4. Significant accounting policies (continued)

4.10 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group and Company expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

4.11 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group and Company does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and Company. The Group and Company does not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

4.12 Employee benefits

(i) Short term employee benefits

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

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

4. Significant accounting policies (continued)

4.12 Employee benefits (continued)

(ii) Defined benefit plans

The Company operates an unfunded defined benefit scheme. Benefits are payable upon retirement age of 50 and 55 with a minimum vesting period of 20 and 10 years service, respectively; and 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 the requirements of FRS 119 Employee Benefits but the Directors are of the opinion that the effect is not material.

4.13 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.

4.13.1 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.

4.13.2 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.

4.13.3 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 Bank Negara Malaysia in respect of premiums ceded to overseas reinsurers.

4. Significant accounting policies (continued)

4.13 General insurance underwriting results (continues)

4.13.4 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.

4.13.5 Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premium 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.

4.13.6 Other revenue recognition

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

5. Adoption of new FRSs and amendment to FRS

5.1 Amendment to FRS and new FRSs adopted

- (a) Amendment to FRS 121 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation* is mandatory for annual periods beginning on or after 1 July 2007.

This amendment is not relevant to the Group's and the Company's operations.

5. Adoption of new FRSs and amendment to FRS(continued)

5.1 Amendment to FRS and new FRSs adopted (continued)

- (b) The following FRSs are mandatory for annual periods beginning on or after 1 July 2007:

FRS 107	<i>Cash Flow Statements</i>
FRS 111	<i>Construction Contracts</i>
FRS 112	<i>Income Taxes</i>
FRS 118	<i>Revenue</i>
FRS 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
FRS 134	<i>Interim Financial Reporting</i>
FRS 137	<i>Provisions, Contingent Assets and Contingent Liabilities</i>

These FRSs align the Malaysian Accounting Standards Board ('MASB') FRSs with the equivalent International Accounting Standards ('IASs'), both in terms of form and content. The adoption of these Standards will only impact the form and content of disclosures presented in the financial statements.

FRS 111, 120, and 134 are not relevant to the Group's and the Company's operations.

- (c) The following IC Interpretations are mandatory for annual periods beginning on or after 1 July 2007:

IC Interpretation 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
IC Interpretation 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
IC Interpretation 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
IC Interpretation 6	<i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>
IC Interpretation 7	<i>Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies</i>
IC Interpretation 8	<i>Scope of FRS 2 Share-based Payments</i>

These Interpretations are not relevant to the Company's operations.

- (d) *Framework for the Preparation and Presentation of Financial Statements* ('Framework') is effective for annual periods beginning on or after 1 July 2007.

The Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. It is not a MASB approved FRS as defined in paragraph 11 of FRS 101 *Presentation of Financial Statements* and hence, does not define standards for any particular measurement or disclosure issue.

5. Adoption of new FRSs and amendment to FRS(continued)

5.2 New FRSs not adopted

- (a) FRS 4 *Insurance Contracts* and the consequential amendments resulting from FRS 4 are mandatory for annual financial periods beginning on or after 1 January 2010. FRS 4 replaces the existing FRS 202₂₀₀₄ *General Insurance Business* and FRS 203₂₀₀₄ *Life Insurance Business*.

The standard applies to all insurance contracts, including reinsurance contracts that an entity issues and to reinsurance contracts that it holds. The standard prohibits provisions for potential claims under contracts that are not in existence at the reporting date, and requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets. The standard also requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

- (b) FRS 7 *Financial Instruments: Disclosures* and the consequential amendments resulting from FRS 7 are mandatory for annual financial periods beginning on or after 1 January 2010. FRS 7 replaces the disclosure requirements of the existing FRS 132 *Financial Instruments: Disclosure and Presentation*.

The standard applies to all risks arising from a wide array of financial instruments and requires the disclosure of the significance of financial instruments for an entity's financial position and performance.

The standard requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures describe the management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information on the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

- (c) FRS 139 *Financial Instruments: Recognition and Measurement* and the consequential amendments resulting from FRS 139 are mandatory for annual financial periods beginning on or after 1 January 2010.

The standard establishes the principles for the recognition and measurement of financial assets and financial liabilities including circumstances under which hedge accounting is permitted. By virtue of the exemption provided under paragraph 103AB of FRS 139, the impact of applying FRS 139 on the consolidated financial statements upon first adoption of the FRS as required by paragraph 30(b) of FRS 108 *Accounting Policies, Change in Accounting Estimates and Errors* is not disclosed.

- (d) IC Interpretation 9 *Reassessment of Embedded Derivatives* is mandatory for annual financial periods beginning on or after 1 January 2010.

This Interpretation prohibits the subsequent reassessment of embedded derivatives unless there is a change in the terms of the host contract that significantly modifies the cash flows that would otherwise be required by the host contract.

The Group does not expect any impact on the consolidated financial statements arising from the adoption of this Interpretation.

5. Adoption of new FRSs and amendment to FRS(continued)

5.2 New FRSs not adopted (continued)

(e) The followings are not relevant to the Company's operations:-

FRS 8	<i>Operating Segments</i> and the consequential amendments resulting from FRS 8 are mandatory for annual financial periods beginning on or after 1 July 2009.
IC Interpretation 10	<i>Interim Financial Reporting and Impairment</i> is mandatory for annual financial periods beginning on or after 1 January 2010.

6. Significant accounting estimates and judgments

6.1 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Depreciation

The cost of furniture and fittings and office equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these furniture and fittings and office equipment to be within five (5) to ten (10) years. These are common life expectancies applied in normal usage. Changes in the expected level of usage and other developments could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised.

b) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profits will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

6. Significant accounting estimates and judgments (continued)

6.1 Key sources of estimation uncertainty (continued)

c) Allowance for doubtful debts

The Group and Company makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses historical bad debt, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of allowance for doubtful debts. Where expectations differ from the original estimates, the differences will impact the carrying amount of receivables.

d) Incurred but not reported (“IBNR”) claims

Estimating the provision for IBNR 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.

7. Property, plant and equipment

Group and Company	Furniture and fittings RM	Office equipment RM	Motor vehicles RM	Total RM
Cost				
Balance as at 1 January 2007	1,464,258	4,550,074	216,676	6,231,008
Additions	35,650	128,014	227,000	390,664
Disposals	-	(7,640)	-	(7,640)
Written-off	(2,200)	-	-	(2,200)
Adjustment	(57,092)	-	-	(57,092)
<hr/>				
Balance as at 31 December 2007/ 1 January 2008	1,440,616	4,670,448	443,676	6,554,740
Additions	176,944	394,740	-	571,684
Disposals	-	-	(206,000)	(206,000)
Written-off	(152,117)	(34,425)	-	(186,542)
<hr/>				
Balance as at 31 December 2008	<u>1,465,443</u>	<u>5,030,763</u>	<u>237,676</u>	<u>6,733,882</u>
Accumulated depreciation				
Balance as at 1 January 2007	529,417	3,871,582	216,676	4,617,675
Charge for the financial year	93,772	236,918	45,400	376,090
Disposals	-	(4,922)	-	(4,922)
Written-off	(517)	-	-	(517)
Adjustment	(8,207)	-	-	(8,207)
<hr/>				
Balance as at 31 December 2007/ 1 January 2008	614,465	4,103,578	262,076	4,980,119
Charge for the financial year	99,258	274,752	45,400	419,410
Disposals	-	-	(206,000)	(206,000)
Written-off	(30,423)	(29,862)	-	(60,285)
<hr/>				
Balance as at 31 December 2008	<u>683,300</u>	<u>4,348,468</u>	<u>101,476</u>	<u>5,133,244</u>
Net book value				
Balance as at 31 December 2007	<u>826,151</u>	<u>566,870</u>	<u>181,600</u>	<u>1,574,621</u>
<hr/>				
Balance as at 31 December 2008	<u>782,143</u>	<u>682,295</u>	<u>136,200</u>	<u>1,600,638</u>

8. Investment in a subsidiary

	Company	
	2008 RM	2007 RM
Unquoted shares, at cost	<u>1,810,000</u>	<u>1,810,000</u>

Details of the subsidiary is as follows:

Name of Company	Principal Activities	Country of Incorporation	Effective Ownership Interest	
			2008 %	2007 %
United Continental Properties Sdn. Bhd.	Investment Holding	Malaysia	100	100

The subsidiary's principal activity has been changed from property investment to investment holding after the sale of its sole investment property in 2007.

9. Investment property

Group and Company	Balance as at 1.1.2008 RM	Additions RM	Disposals RM	Depreciation charge for the financial year RM	Balance as at 31.12.2008 RM
Carrying amount					
Freehold land	15,117,092	-	-	-	15,117,092
Building	10,000,000	-	-	(200,000)	9,800,000
	<u>25,117,092</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>24,917,092</u>

	Cost RM	[----- At 31.12.2008 -----] Accumulated depreciation and impairment RM	Carrying amount RM
Freehold land	15,117,092	-	15,117,092
Building	10,000,000	(200,000)	9,800,000
	<u>25,117,092</u>	<u>(200,000)</u>	<u>24,917,092</u>

9. Investment property (continued)

Group and Company	Balance as at 1.1.2007 RM	Additions RM	Disposals RM	Depreciation charge for the financial year RM	Balance as at 31.12.2007 RM
Carrying amount					
Freehold land	214,784	15,117,092	(214,784)	-	15,117,092
Building	-	10,000,000	-	-	10,000,000
	214,784	25,117,092	(214,784)	-	25,117,092
				[----- At 31.12.2007 -----]	
				Cost RM	Accumulated depreciation RM
					Carrying amount RM
Freehold land				15,117,092	-
Building				10,000,000	-
				25,117,092	-

The fair value of investment properties at 31 December 2008 amounted to approximately RM25,117,000 (2007: RM25,117,000).

10. Other investments

	Group and Company	
	2008	2007
	RM	RM
Malaysian Government Securities, at cost	22,378,000	22,332,500
Add: Accretion of discounts	42,963	82,009
	22,420,963	22,414,509
Cagamas bonds, at cost	5,033,500	-
Less: Amortisation of premiums	(5,894)	-
	5,027,606	-
Quoted in Malaysia, at cost:		
Shares	11,537,076	26,851,971
Warrants	463,139	16,370
REITs	798,256	672,770
Less: Allowance for diminution in value	(1,626,722)	(177,684)
	11,171,749	27,363,427
Unquoted in Malaysia, at cost:		
Corporate bonds	24,950,500	5,100,000
Add: Accretion of discounts	21,869	-
	24,972,369	5,100,000
Fixed deposits with licensed banks	148,307,258	145,036,053
	<u>211,899,945</u>	<u>199,913,989</u>

10. Other investments (continued)

	Group and Company	
	2008	2007
	RM	RM
Market value		
Malaysian Government Securities and Cagamas bonds	27,777,500	22,544,750
Quoted investments in Malaysia	<u>11,602,990</u>	<u>30,959,020</u>
Investments maturing after twelve months:		
Malaysian Government Securities	14,924,132	4,921,500
Cagamas bonds	5,027,606	-
Corporate bonds	<u>24,972,369</u>	<u>5,100,000</u>

11. Deferred tax asset

- (a) The deferred tax asset and liability are made up of the following:

	Group and Company	
	2008	2007
	RM	RM
Balance as at 1 January	2,264,000	3,537,000
Recognised in the income statement (Note 24)	<u>177,000</u>	<u>(1,273,000)</u>
Balance as at 31 December	<u>2,441,000</u>	<u>2,264,000</u>
Presented after appropriate offsetting:		
Deferred tax asset	2,621,000	2,474,000
Deferred tax liability	<u>(180,000)</u>	<u>(210,000)</u>
	<u>2,441,000</u>	<u>2,264,000</u>

- (b) The components and movements of deferred tax asset and liability during the financial year prior to offsetting are as follows:

Deferred tax asset	Group and Company	
	2008	2007
	RM	RM
<u>Provisions</u>		
At 1 January	2,474,000	3,824,000
Recognised in the income statement	<u>147,000</u>	<u>(1,350,000)</u>
At 31 December	<u>2,621,000</u>	<u>2,474,000</u>
Deferred tax liability		
<u>Property, plant and equipment</u>		
At 1 January	(210,000)	(287,000)
Recognised in the income statement	<u>30,000</u>	<u>77,000</u>
At 31 December	<u>(180,000)</u>	<u>(210,000)</u>

12. Receivables

	Group		Company	
	2008	2007	2008	2007
	RM	RM	RM	RM
Trade receivables				
Outstanding premium including agents and brokers balances	33,498,166	27,746,375	33,498,166	27,746,375
Allowance for doubtful debts	(3,646,840)	(3,639,175)	(3,646,840)	(3,639,175)
	29,851,326	24,107,200	29,851,326	24,107,200
Amounts due from reinsurers, ceding companies and co-insurers	16,211,906	12,137,483	16,211,906	12,137,483
Allowance for doubtful debts	(2,749,992)	(2,979,369)	(2,749,992)	(2,979,369)
	13,461,914	9,158,114	13,461,914	9,158,114
Amount due from ultimate holding company	-	1,043	-	1,043
Allowance for doubtful debts	-	(1,043)	-	(1,043)
	-	-	-	-
Amounts due from related companies	385,805	474,041	385,805	474,041
Allowance for doubtful debts	(73,688)	(60,854)	(73,688)	(60,854)
	312,117	413,187	312,117	413,187
Other receivables				
Other receivables, deposits and prepayments	8,368,082	3,119,005	8,286,970	3,049,095
Income due and accrued	2,154,862	1,613,685	2,154,862	1,613,685
	<u>10,522,944</u>	<u>4,732,690</u>	<u>10,441,832</u>	<u>4,662,780</u>
	<u>54,148,301</u>	<u>38,411,191</u>	<u>54,067,189</u>	<u>38,341,281</u>

Included in other receivables of the Company are proceeds from sale of investments pending receipt of RM3,755,503 (2007: nil).

The amounts receivable from the ultimate holding company and related companies are unsecured, interest-free and repayable on demand.

13. Cash and cash equivalents

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Call deposits with licensed banks	23,446,000	20,813,000	23,446,000	20,813,000
Cash and bank balances	7,671,932	10,649,418	7,584,522	10,625,350
Fixed deposits with licensed banks	3,992,787	3,887,945	-	-
	<u>35,040,719</u>	<u>35,350,363</u>	<u>31,030,522</u>	<u>31,438,350</u>

14. Provision for outstanding claims

	Group and Company	
	2008 RM	2007 RM
Provision for outstanding claims	180,838,003	138,449,259
Less: Recoverable from reinsurers thereon	(106,525,353)	(74,384,312)
Net outstanding claims	<u>74,312,650</u>	<u>64,064,947</u>

15. Payables

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Trade payables				
Amounts due to reinsurers, ceding companies and co-insurers	42,835,977	37,431,969	42,835,977	37,431,969
Amounts due to agents, brokers and insureds	8,615,684	4,547,814	8,615,684	4,547,814
	<u>51,451,661</u>	<u>41,979,783</u>	<u>51,451,661</u>	<u>41,979,783</u>
Other payables				
Other payables and accrued liabilities	39,257,371	30,397,302	39,243,687	30,383,726
Amount due to ultimate holding company	100,010	11,586	100,010	11,586
Amounts due to related companies	8,214	13,304	8,214	13,304
	<u>90,817,256</u>	<u>72,401,975</u>	<u>90,803,572</u>	<u>72,388,399</u>

The amounts due to ultimate holding company and related companies arose from non-trade transactions which are unsecured, interest-free and repayable on demand.

Included in other payables and accrued liabilities of the Company are cash collaterals retained for bond policies of RM32,952,119 (2007: RM24,357,088).

16. Staff retirement gratuity

	Group and Company	
	2008	2007
	RM	RM
Balance as at 1 January	1,529,538	1,106,152
(Write-back)/ Provision for the financial year	(550,776)	423,386
Retirement benefits paid	<u>-</u>	<u>-</u>
Balance as at 31 December	<u><u>978,762</u></u>	<u><u>1,529,538</u></u>

17. Unearned premium reserve

Group and Company	Marine, Aviation &				Total
	Fire	Motor	Transit	Miscellaneous	
	RM	RM	RM	RM	RM
2008					
Balance as at 1 January	4,435,783	15,395,007	955,362	11,981,785	32,767,937
Increase/(Decrease)	1,050,632	3,672,719	208,797	490,044	5,422,192
Balance as at 31 December	<u><u>5,486,415</u></u>	<u><u>19,067,726</u></u>	<u><u>1,164,159</u></u>	<u><u>12,471,829</u></u>	<u><u>38,190,129</u></u>
2007					
Balance as at 1 January	3,909,060	11,957,101	605,169	10,663,600	27,134,930
Increase	526,723	3,437,906	350,193	1,318,185	5,633,007
Balance as at 31 December	<u><u>4,435,783</u></u>	<u><u>15,395,007</u></u>	<u><u>955,362</u></u>	<u><u>11,981,785</u></u>	<u><u>32,767,937</u></u>

18. Share capital

	Group and Company			
	2008		2007	
	No. of shares	RM	No. of shares	RM
Authorised:				
Ordinary shares of RM1.00 each	<u><u>300,000,000</u></u>	<u><u>300,000,000</u></u>	<u><u>300,000,000</u></u>	<u><u>300,000,000</u></u>
Issued and fully paid:				
Ordinary shares of RM1.00 each	<u><u>100,023,500</u></u>	<u><u>100,023,500</u></u>	<u><u>100,023,500</u></u>	<u><u>100,023,500</u></u>

19. Reserves

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Non-distributable:				
Share premium	980,000	980,000	980,000	980,000
Distributable:				
Retained earnings (Note 20)	<u>26,237,736</u>	<u>30,396,073</u>	<u>23,873,412</u>	<u>28,139,469</u>
	<u><u>27,217,736</u></u>	<u><u>31,376,073</u></u>	<u><u>24,853,412</u></u>	<u><u>29,119,469</u></u>

20. Retained earnings

Effective 1 January 2008, the Company is given the option to make an irrecoverable election to move to a single tier system or continue to use its tax credit under Section 108 of the Income Tax Act 1967 for the purpose of dividend distribution until the tax credit is fully utilised or latest by 31 December 2013.

The Company has decided not to make this election and has sufficient tax credit under Section 108 of the Income Tax Act 1967 and balance in the tax exempt account to frank the payment of dividends out of its entire retained earnings without incurring additional tax liability.

21. Operating revenue

Group	Shareholders' fund RM	General business RM	Total RM
2008			
Gross premium	-	193,786,431	193,786,431
Investment income (Note 22)	<u>1,259,511</u>	<u>8,814,460</u>	<u>10,073,971</u>
	<u><u>1,259,511</u></u>	<u><u>202,600,891</u></u>	<u><u>203,860,402</u></u>
2007			
Gross premium	-	164,192,825	164,192,825
Investment income (Note 22)	<u>1,292,306</u>	<u>7,941,387</u>	<u>9,233,693</u>
	<u><u>1,292,306</u></u>	<u><u>172,134,212</u></u>	<u><u>173,426,518</u></u>

21. Operating revenue (continued)

Company	Shareholders' fund RM	General business RM	Total RM
2008			
Gross premium	-	193,786,431	193,786,431
Investment income (Note 22)	1,117,985	8,814,460	9,932,445
	<u>1,117,985</u>	<u>202,600,891</u>	<u>203,718,876</u>
2007			
Gross premium	-	164,192,825	164,192,825
Investment income (Note 22)	1,158,115	7,941,387	9,099,502
	<u>1,158,115</u>	<u>172,134,212</u>	<u>173,292,327</u>

22. Investment income

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Insurance fund				
Interest income from:				
Malaysian Government Securities	863,641	1,073,300	863,641	1,073,300
Cagamas bond	173,494	-	173,494	-
Corporate bonds	876,541	315,000	876,541	315,000
Fixed and call deposits	4,651,064	5,072,690	4,651,064	5,072,690
Gross dividends from:				
Quoted shares in Malaysia	1,268,513	1,036,504	1,268,513	1,036,504
Others	9,523	17,650	9,523	17,650
Rental income from investment property, net of rates, maintenance, and depreciation	<u>971,684</u>	<u>426,243</u>	<u>971,684</u>	<u>426,243</u>
	<u>8,814,460</u>	<u>7,941,387</u>	<u>8,814,460</u>	<u>7,941,387</u>
Shareholders' fund				
Interest from fixed and call deposits	1,207,522	1,281,539	1,065,996	1,147,348
Gross dividends from:				
Quoted shares in Malaysia	<u>51,989</u>	<u>10,767</u>	<u>51,989</u>	<u>10,767</u>
	<u>1,259,511</u>	<u>1,292,306</u>	<u>1,117,985</u>	<u>1,158,115</u>
	<u>10,073,971</u>	<u>9,233,693</u>	<u>9,932,445</u>	<u>9,099,502</u>

23. Other (expenditure)/ income - net

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Insurance fund				
Accretion of discounts/ (Amortisation of premium) of Malaysian Government Securities and Corporate Bonds - net	55,429	(152,198)	55,429	(152,198)
Property, plant and equipment written off	(126,257)	(1,683)	(126,257)	(1,683)
Loss on foreign exchange	(34,779)	(18,666)	(34,779)	(18,666)
Gain on disposal of property, plant and equipment	55,000	980	55,000	980
(Loss)/ Gain on disposal of investments	(7,592,294)	3,074,204	(7,592,294)	3,074,204
(Provision for)/ Write back of diminution in value of quoted investments	(1,584,020)	2,273,191	(1,584,020)	2,273,191
Write back/ (Provision for) staff retirement gratuity	550,776	(423,386)	550,776	(423,386)
Sundry income	326,571	106,193	326,571	106,193
	<u>(8,349,574)</u>	<u>4,858,635</u>	<u>(8,349,574)</u>	<u>4,858,635</u>
Shareholders' fund				
Gain on disposal of investments	-	490,806	-	55,590
Sundry expenses	(145)	(3,569)	(145)	(152)
	<u>(145)</u>	<u>487,237</u>	<u>(145)</u>	<u>55,438</u>
	<u><u>(8,349,719)</u></u>	<u><u>5,345,872</u></u>	<u><u>(8,349,719)</u></u>	<u><u>4,914,073</u></u>

24. Tax expense

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Income tax expense				
- current	1,863,178	3,796,296	1,835,000	3,770,000
- (Over)/under provision in prior years	<u>(728,437)</u>	<u>177,549</u>	<u>(728,531)</u>	<u>177,549</u>
	1,134,741	3,973,845	1,106,469	3,947,549

24. Tax expense (continued)

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Deferred tax (Note 11)				
- Relating to (origination)/ reversal of deductible temporary differences	(165,000)	1,309,000	(165,000)	1,309,000
- Deferred tax assets under recognised in prior years	(12,000)	(36,000)	(12,000)	(36,000)
	<u>(177,000)</u>	<u>1,273,000</u>	<u>(177,000)</u>	<u>1,273,000</u>
	<u>957,741</u>	<u>5,246,845</u>	<u>929,469</u>	<u>5,220,549</u>

The Malaysian income tax is calculated at the statutory tax rate of 26% (2007: 27%) of the estimated taxable profit for the fiscal year. The Malaysian statutory tax rate has been reduced to 26% for fiscal year of assessment 2008 from the previous year's rate of 27%, and will be reduced to 25% for fiscal year of assessment 2009 onwards. The computation of deferred tax as at 31 December 2008 has reflected these changes.

The numerical reconciliation between the average effective tax rate and the applicable tax rate of the Group and of the Company are as follows:

	2008 RM'000	2007 RM'000
Group		
Profit before tax	<u>4,201</u>	<u>15,763</u>
Income tax based on Malaysian statutory tax rates	1,092	4,256
Non-deductible expenses	722	711
Tax exempt income	(113)	(162)
Other items	(3)	300
	<u>1,698</u>	<u>5,105</u>
Current tax (over)/underprovided in prior years	(728)	178
Deferred tax asset under recognised in prior years	(12)	(36)
Tax expense	<u>958</u>	<u>5,247</u>
Company		
Profit before tax	<u>4,065</u>	<u>15,219</u>
Income tax based on Malaysian statutory tax rates	1,057	4,109
Non-deductible expenses	720	705
Tax exempt income	(113)	(44)
Other items	6	309
	<u>1,670</u>	<u>5,079</u>
Current tax (over)/underprovided in prior years	(729)	178
Deferred tax asset under recognised in prior years	(12)	(36)
Tax expense	<u>929</u>	<u>5,221</u>

25. Dividends

	Group and Company	
	2008	2007
	RM	RM
Ordinary share		
Final gross dividend paid of 10.0% (2007: 9%), less tax	<u>7,401,739</u>	<u>6,571,544</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 December 2008, comprising of 6% less 25% tax on the issued and paid-up share capital, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Thus, this dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained earnings in the next financial year ending 31 December 2009.

26. Net claims incurred

Group and Company	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscel- laneous RM	Total RM
2008					
Gross claims paid less salvage	23,823,903	24,849,935	3,152,514	36,515,392	88,335,854
Reinsurances recoveries	<u>(18,823,915)</u>	<u>(2,695,204)</u>	<u>(2,295,925)</u>	<u>(19,505,311)</u>	<u>(43,314,465)</u>
Net claims paid	4,999,988	22,154,731	856,589	17,010,081	45,021,389
Net outstanding claims:					
Balance as at 31 December	7,579,372	43,737,543	2,321,485	20,674,250	74,312,650
Balance as at 1 January	<u>(7,347,414)</u>	<u>(35,346,541)</u>	<u>(2,136,533)</u>	<u>(19,234,459)</u>	<u>(64,064,947)</u>
Net claims incurred	<u>5,231,946</u>	<u>30,545,733</u>	<u>1,041,541</u>	<u>18,449,872</u>	<u>55,269,092</u>
2007					
Gross claims paid less salvage	10,805,352	21,815,276	2,520,416	22,937,912	58,078,956
Reinsurances recoveries	<u>(7,210,859)</u>	<u>(2,182,548)</u>	<u>(1,497,714)</u>	<u>(8,504,351)</u>	<u>(19,395,472)</u>
Net claims paid	3,594,493	19,632,728	1,022,702	14,433,561	38,683,484
Net outstanding claims:					
Balance as at 31 December	7,347,414	35,346,541	2,136,533	19,234,459	64,064,947
Balance as at 1 January	<u>(4,794,044)</u>	<u>(27,469,029)</u>	<u>(1,948,020)</u>	<u>(19,117,076)</u>	<u>(53,328,169)</u>
Net claims incurred	<u>6,147,863</u>	<u>27,510,240</u>	<u>1,211,215</u>	<u>14,550,944</u>	<u>49,420,262</u>

27. Management expenses

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Insurance fund				
Staff salaries and related expenses	6,685,692	6,068,744	6,685,692	6,068,744
Directors' remuneration				
- fees	120,000	120,000	120,000	120,000
- other remuneration	96,000	96,000	96,000	96,000
Auditors' remuneration	70,000	54,000	70,000	54,000
Rental of offices and premises	871,527	871,626	871,527	871,626
Depreciation of property and equipment	419,410	367,883	419,410	367,883
Hire of equipment	81,397	71,159	81,397	71,159
Allowance for doubtful debts no longer required	(209,921)	(1,246,731)	(209,921)	(1,246,731)
Bad debts written off	-	576,219	-	576,219
Other expenses	6,242,453	5,631,822	6,242,453	5,631,822
	<u>14,376,558</u>	<u>12,610,722</u>	<u>14,376,558</u>	<u>12,610,722</u>
Shareholders' fund				
Auditor's remuneration	2,208	2,092	-	-
Other expenses	503,326	20,074	500,000	-
	<u>505,534</u>	<u>22,166</u>	<u>500,000</u>	<u>-</u>
	<u>14,882,092</u>	<u>12,632,888</u>	<u>14,876,558</u>	<u>12,610,722</u>

Included in other expenses are contributions to the Employees Provident Fund of RM651,465 (2007: RM556,554) for the Group and the Company.

28. Related parties

(a) Identities of related parties

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 where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company has controlling related party relationships with its subsidiary and its holding and ultimate holding companies.

28. Related parties (continued)

(b) Significant transactions with related parties are as follows:

	Group and Company	
	2008	2007
	RM	RM
Holding and related companies:		
Premium income	1,725,239	1,881,145
Major shareholder of holding company:		
Premium income	123,583	148,037
Subsidiary of major shareholder of holding company:		
Premium income	577,778	600,585
Associate of related company:		
Brokerage fees and disaster recovery charges	(2,500)	(17,932)
Management fees payable	(292,760)	(330,496)
Related companies:		
Internal audit and secretarial services charges	(133,387)	(63,081)
Hotel facilities and accommodation charges	(45,530)	(47,177)
Travelling expenses	(33,746)	(38,699)
Website development cost	(31,435)	(87,062)
	<u>1,448,298</u>	<u>1,451,533</u>

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

(c) Compensation of key management personnel

The remuneration of key management personnel during the financial year was as follows:

	Group and Company	
	2008	2007
	RM	RM
Short term employee benefits	1,184,311	1,197,523
Post-employment benefits	263,987	254,010
	<u>1,448,298</u>	<u>1,451,533</u>

29. Financial instruments

(a) **Financial risk management objectives and policies**

Exposure to credit, foreign currency, liquidity and interest rate risks arise in the normal course of the Group's 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.

29. Financial instruments (continued)

(a) Financial risk management objectives and policies (continued)

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 and the exposure to credit risk is monitored by management on an ongoing basis. At balance sheet date, there were no significant concentrations of credit risks.

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 monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance their operations and to mitigate the effects of fluctuations in cash flows.

Interest rate risk

The Group's 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 their investments.

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.

29. Financial instruments (continued)

(a) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

Group	Average effective annual 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
2008								
Financial assets								
Malaysian Government Securities	3.85	22,420,963	7,496,831	-	4,971,258	4,960,902	4,991,972	-
Cagamas bonds	3.45	5,027,606	-	-	-	5,027,606	-	-
Corporate bonds	3.51	24,972,369	-	4,973,312	5,000,000	9,998,837	4,900,220	100,000
Fixed and call deposits	3.04	175,746,045	175,746,045	-	-	-	-	-
		<u>228,166,983</u>	<u>183,242,876</u>	<u>4,973,312</u>	<u>9,971,258</u>	<u>19,987,345</u>	<u>9,892,191</u>	<u>100,000</u>
2007								
Financial assets								
Malaysian Government Securities	3.84	22,414,509	4,988,982	7,484,496	-	-	4,950,877	4,990,154
Corporate bonds	6.30	5,100,000	-	-	-	-	5,000,000	100,000
Fixed and call deposits	3.70	169,736,998	169,736,998	-	-	-	-	-
		<u>197,251,507</u>	<u>174,725,980</u>	<u>7,484,496</u>	<u>-</u>	<u>-</u>	<u>9,950,877</u>	<u>5,090,154</u>

29. Financial instruments (continued)

(a) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

Company	Average effective annual 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
2008								
Financial assets								
Malaysian Government Securities	3.85	22,420,963	7,496,831	-	4,971,258	4,960,902	4,991,972	-
Cagamas bonds	3.45	5,027,606	-	-	-	5,027,606	-	-
Corporate bonds	3.51	24,972,369	-	4,973,312	5,000,000	9,998,837	4,900,220	100,000
Fixed and call deposits	3.03	<u>171,753,258</u>	<u>171,753,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>224,174,196</u>	<u>179,250,089</u>	<u>4,973,312</u>	<u>9,971,258</u>	<u>19,987,345</u>	<u>9,892,191</u>	<u>100,000</u>
2007								
Financial assets								
Malaysian Government Securities	3.84	22,414,509	4,988,982	7,484,496	-	-	4,950,877	4,990,154
Corporate bonds	6.30	5,100,000	-	-	-	-	5,000,000	100,000
Fixed and call deposits	3.70	<u>165,849,053</u>	<u>165,849,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>193,363,562</u>	<u>170,838,035</u>	<u>7,484,496</u>	<u>-</u>	<u>-</u>	<u>9,950,877</u>	<u>5,090,154</u>

29. Financial instruments (continued)

(b) Fair values

The aggregate fair values of financial assets carried on the balance sheets are represented in the following table:

Group and Company	2008		2007	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Financial assets				
Malaysian Government				
Securities	22,420,963	22,844,000	22,414,509	22,544,750
Cagamas bonds	5,027,606	4,933,500	-	-
Unquoted corporate bonds	24,972,369	25,168,000	5,100,000	5,448,500
Quoted shares	9,933,879	10,344,638	26,674,287	30,090,394
Quoted warrants	488,870	509,353	16,370	40,626
Other investment - REITs	749,000	749,000	672,770	828,000

The fair value of quoted securities is the closing market price at the balance sheet date. For Malaysian Government Securities, Cagamas bonds 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.