

**Asia Capital Reinsurance Malaysia  
Sdn. Bhd.**

(Company No. 762294-T)  
(Incorporated in Malaysia)

**Financial statements for the period  
ended 31 December 2007**

# Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)  
(Incorporated in Malaysia)

## Directors' report for the financial period ended 31 December 2007

The Directors have pleasure in submitting their first report and the audited financial statements of the Company for the period from 9 February 2007 (date of incorporation) to 31 December 2007.

### Principal activity

The Company was incorporated on 9 February 2007.

The Company is principally involved in the underwriting of general reinsurance business and commenced operations during the period.

There has been no significant change to this activity during the financial period.

### Results

	RM
Net loss for the period	7,699,785
	=====

### Dividends

No dividend was paid during the period and the Directors do not recommend any dividend to be paid for the period under review.

### Directors of the Company

The Directors who served since the date of incorporation are:

Raja Datuk Arshad Raja Tun Uda (Chairman) (appointed on 9 February 2007) (First Director)

Tunku Ali Redhaudin Bin Tunku Muhriz (appointed on 9 February 2007) (First Director)

Chan Wei Beng (appointed on 9 February 2007) (First Director)

Tan Kwang Kherng (appointed on 9 February 2007) (First Director)

Wong Ah Kow (appointed on 19 September 2007)

Tan Chong Liong (appointed on 27 April 2007 and resigned on 19 September 2007)

Dato' Dr. R.Thillainathan A/L Ramasamy (appointed on 21 February 2008)

Dato' Mohd Salleh Bin Haji Harun (appointed on 21 February 2008)

## **Directors of the Company (continued)**

6 members of the Board are Non-executive Directors and 1 member of the Board is an Executive Director. Two of the Non-executive Directors are also independent Directors. All the Board members have complied with requirement of serving the board of not more than 15 companies.

The Board met 3 times during the period between 9 February 2007 to 31 December 2007 to decide the objectives and strategy and any other specific matters which are reserved for its decision.

## **Directors' interests**

None of the Directors holding office at 31 December 2007 had any interest in the ordinary shares of the Company and of its related corporations during the financial period.

## **Directors' benefits**

Since the date of incorporation, no Director of the Company has 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 Note 13 to the financial statements or the fixed salary of a full time employee of related companies) by reason of a contract made by the Company or a related company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial period which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **Reserves and provisions**

There were no material transfers to or from reserves and provisions during the period under review.

## **Provision for outstanding claims**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported (IBNR) claims.

## **Bad and doubtful debts**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

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

## **Current assets**

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

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

## **Valuation methods**

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

## **Contingent and other liabilities**

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

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

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent liability and other liability do not include liabilities arising from contracts of reinsurance underwritten in the ordinary course of business of the Company.

Company No. 762294-T
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## Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, that would render any amount stated in the financial statements misleading.

## Items of an unusual nature

The results of the operations of the Company for the financial period were not, in the opinion of the Directors, 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 period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial period in which this report is made.

## Issue of shares

The changes in the issued and paid-up capital of the Company during the financial period are as follows:

Ordinary shares of RM1 each	Date issued	No. of shares
Subscription shares	9 February 2007	2
Issued during the period	29 March 2007	249,999,998
	=====	=====

In total, 250,000,000 ordinary shares were issued at par for cash for working capital purposes.

## Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the period.

## Statement on corporate governance and internal controls

### *i) Board responsibilities*

In discharging their duties, the Board is equally responsible to ensure compliance with the Insurance Act, 1996, Insurance Regulations, 1996 and Bank Negara Malaysia (“BNM”) Guidelines and other directives. They also have to comply with the tenets of corporate governance by adopting its best practices as stipulated under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers. As the requisite committees are in process of being established, the Board is currently responsible for the overall corporate governance. Apart from their statutory responsibilities, the Board approves the Company’s major investments, disposals and funding decisions.

They oversee the on-going implementation of appropriate systems to manage risks and also review and approve the strategies and financial objectives to be implemented by the management. These functions are carried out by the Board directly.

The Board is also responsible for creating the framework and policies within which the Company should be operating and the management is responsible for implementing them. This demarcation reinforces the supervisory role of the Board.

The Directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that are required for the management of the Company.

### *ii) Management accountability*

Whilst the Board is responsible for creating the framework and policies within which the Company should be operating, the management is accountable for the execution of the enabling policies and attainment of the Company’s corporate objectives.

### *iii) Corporate independence*

All material related party transactions have been disclosed in the notes to the financial statements.

### *iv) Risk management and internal controls*

There is an ongoing process of internal control including self-appraisal whereby each business unit is required to systematically assess its internal business control systems and where necessary, initiate programmes for corrective action or improvement.

There was no internal audit function established and as such no internal audit work was performed during the period.

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

### *v) Financial reporting*

The Directors are responsible for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

### *vi) Public accountability*

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

## **Holding and ultimate holding companies**

The holding and ultimate holding companies are Kuala Selangor Ventures Sdn. Bhd. and Khazanah Nasional Berhad, respectively, both companies incorporated in Malaysia.

## **Auditors**

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

Signed in accordance with a resolution of the Directors:

.....  
**Raja Datuk Arshad Raja Tun Uda**

.....  
**Wong Ah Kow**

Kuala Lumpur, Malaysia

Date:

**Asia Capital Reinsurance Malaysia Sdn. Bhd.**

(Company No. 762294-T)  
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 10 to 39 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Company at 31 December 2007 and of the results of its operations and cash flows for the period ended on that date.

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

.....  
**Raja Datuk Arshad Raja Tun Uda**

.....  
**Wong Ah Kow**

Kuala Lumpur, Malaysia

Date:

**Asia Capital Reinsurance Malaysia Sdn. Bhd.**

(Company No. 762294-T)  
(Incorporated in Malaysia)

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

I, **Susielawati Ahmad Basir**, the officer primarily responsible for the financial management of Asia Capital Reinsurance Malaysia Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 10 to 39 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on  
.....

.....  
**Susielawati Ahmad Basir**

Before me:

## **Report of the auditors to the members of Asia Capital Reinsurance Malaysia Sdn. Bhd.**

(Company No. 762294-T)

(Incorporated in Malaysia)

We have audited the financial statements set out on pages 10 to 39. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
  - i) the state of affairs of the Company at 31 December 2007 and the results of its operations and cash flows for the period ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

**KPMG**

Firm Number: AF 0758

Chartered Accountants

**Khaw Hock Hoe**

Partner

Approval Number: 2229/04/08(J)

Kuala Lumpur,

Date:

## Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)

(Incorporated in Malaysia)

### Balance sheet at 31 December 2007

	Note	2007 RM
<b>Assets</b>		
Property, plant and equipment	3	891,378
Investments	4	256,569,591
Receivables	5	19,376,007
Tax recoverable		392,160
Cash and cash equivalents	6	1,218,118
		<hr/>
<b>Total assets</b>		278,447,254
		<hr/> <hr/>
<b>Liabilities</b>		
Provision for outstanding claims	7	12,202,340
Payables	8	2,465,038
		<hr/>
<b>Total liabilities</b>		14,667,378
		<hr/>
<b>Insurance reserves</b>		
Unearned premium reserves	9	21,479,661
		<hr/>
<b>Shareholders' equity:</b>		
Share capital	10	250,000,000
Accumulated losses		(7,699,785)
		<hr/>
		242,300,215
		<hr/> <hr/>
<b>Total liabilities and shareholders' equity</b>		278,447,254
		<hr/> <hr/>

The balance sheet above is to be read in conjunction with the notes to the financial statements on pages 17 to 39.

## Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)

(Incorporated in Malaysia)

### Income statement for the period from 9 February 2007 to 31 December 2007

	Note	9.2.2007 to 31.12.2007 RM
<b>Operating revenue</b>	11	44,020,179 =====
Shareholders' fund:		
Management expenses	13	(229,800)
Investment income	14	3,203,108
		-----
		2,973,308
Transfer from reinsurance revenue account		(10,673,093)
		-----
<b>Loss before taxation</b>		(7,699,785)
Tax expense	17	-
		-----
<b>Loss for the period</b>		(7,699,785) =====

The income statement above is to be read in conjunction with the notes to the financial statements on pages 17 to 39.

## Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)

(Incorporated in Malaysia)

### Statement of changes in equity for the period from 9 February 2007 to 31 December 2007

	Share capital RM	Accumulated losses RM	Total RM
Issue of shares			
- at incorporation	2	-	2
Increase in share capital during the period	249,999,998	-	249,999,998
Loss for the period	-	(7,699,785)	(7,699,785)
<b>At 31 December 2007</b>	<b>250,000,000</b>	<b>(7,699,785)</b>	<b>242,300,215</b>

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Note 10

The statement of changes in equity above is to be read in conjunction with the notes to the financial statements on pages 17 to 39.

## Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)

(Incorporated in Malaysia)

### General reinsurance revenue account for the period from 9 February 2007 to 31 December 2007

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium	11	15,819,463	633,620	6,040,864	14,439,729	36,933,676
Less: Reinsurance		(9,938,268)	-	(417,278)	(1,021,853)	(11,377,399)
Net premium		5,881,195	633,620	5,623,586	13,417,876	25,556,277
Increase in unearned premium reserves	9	(9,395,820)	(316,810)	(3,666,835)	(8,100,196)	(21,479,661)
Earned premium		(3,514,625)	316,810	1,956,751	5,317,680	4,076,616
Net claims incurred	12	(3,175,807)	(214,000)	(2,967,749)	(2,327,947)	(8,685,503)
Net commission		(2,929,568)	(63,362)	(812,942)	(2,768,834)	(6,574,706)
		(6,105,375)	(277,362)	(3,780,691)	(5,096,781)	(15,260,209)
Underwriting (deficit)/surplus before management expenses carried forward		(9,620,000)	39,448	(1,823,940)	220,899	(11,183,593)

## Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)

(Incorporated in Malaysia)

### General reinsurance revenue account for the period from 9 February 2007 to 31 December 2007

(continued)

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Underwriting (deficit)/surplus before management expenses brought forward		(9,620,000)	39,448	(1,823,940)	220,899	(11,183,593)
Management expenses	13					(3,015,880)
Underwriting deficit						(14,199,473)
Investment income	14					3,883,395
Other expenditure – net	15					(357,015)
Transfer to income statement						(10,673,093)

The general reinsurance revenue account above is to be read in conjunction with the notes to the financial statements on pages 17 to 39.

## Asia Capital Reinsurance Malaysia Sdn. Bhd.

(Company No. 762294-T)

(Incorporated in Malaysia)

### Cash flow statement for the period from 9 February 2007 to 31 December 2007

	<b>9.2.2007 to 31.12.2007 RM</b>
<b>Cash flow from operating activities</b>	
Loss before tax	(7,699,785)
Adjustments for:	
Depreciation	111,031
Increase in unearned premium reserves	21,479,661
Investment income	(7,086,503)
Loss on disposal of investments	148,811
Accretion of discounts	(8,847)
Allowance for diminution in value of investments	207,813
	<hr/>
Profit from operations before changes in operating assets and liabilities	7,152,181
Purchase of investments	(148,670,587)
Proceeds from disposal of investments	13,989,576
Increase in fixed deposits	(122,236,357)
Increase in receivables	(19,376,007)
Increase in outstanding claims	12,202,340
Increase in payables	2,465,038
	<hr/>
<b>Cash used in operations</b>	(254,473,816)
Tax paid	(392,160)
Investment income received	7,086,503
	<hr/>
<b>Net cash used in operating activities</b>	(247,779,473)
	-----
<b>Cash flow from investing activities</b>	
Purchase of property, plant and equipment	(1,002,409)
	<hr/>
<b>Net cash used in investing activity</b>	(1,002,409)
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Company No. 762294-T
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## Cash flow statement for the period from 9 February 2007 to 31 December 2007

(continued)

	<b>9.2.2007 to 31.12.2007 RM</b>
<b>Cash flow from financing activity</b>	
Proceeds from issuance of shares	250,000,000
	250,000,000
<b>Net cash from financing activity</b>	----- 250,000,000
<b>Cash and cash equivalents at the end of period (Note 6)</b>	1,218,118 =====

The cash flow statement above is to be read in conjunction with the notes to the financial statements on pages 17 to 39.

# **Asia Capital Reinsurance Malaysia Sdn. Bhd.**

(Company No. 762294-T)

(Incorporated in Malaysia)

## **Notes to the financial statements**

Asia Capital Reinsurance Malaysia Sdn. Bhd. is a limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

### **Registered office and principal place of business**

Suite 11E, Level 11

Tower 2, Etiqa Twins

No.11, Jalan Pinang

50450 Kuala Lumpur

Malaysia

The financial statements of the Company as at and for the period ended 31 December 2007 do not include any other entities.

The principal activity of the Company is that of underwriting general reinsurance business. There has been no significant change in the nature of this activity during the financial period.

The holding and ultimate holding companies are Kuala Selangor Ventures Sdn. Bhd. and Khazanah Nasional Berhad respectively. Both companies are incorporated in Malaysia.

The financial statements were approved by the Board of Directors on \_\_\_\_\_.

## **1. Basis of preparation**

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

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

## 1. Basis of preparation (continued)

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

The MASB has also issued the following FRSs and Interpretations that are effective for annual periods beginning after 1 January 2007, and that have not been applied in preparing these financial statements.

<b>FRSs / Interpretations</b>	<b>Effective date</b>
FRS 107, <i>Cash Flow Statements</i>	1 July 2007
FRS 111, <i>Construction Contracts</i>	1 July 2007
FRS 112, <i>Income Taxes</i>	1 July 2007
FRS 118, <i>Revenue</i>	1 July 2007
Amendment to FRS 119 <sub>2004</sub> , <i>Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures</i>	1 July 2007
FRS 120, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 July 2007
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation</i>	1 July 2007
FRS 134, <i>Interim Financial Reporting</i>	1 July 2007
FRS 137, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	To be announced
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS 129, Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007

The Company plans to apply the above mentioned FRSs and Interpretations (except for FRS 111, FRS 120, Amendment to FRS 121, FRS 134, all the IC Interpretations as explained below and FRS 139 of which its effective date has yet to be announced) for annual period beginning on 1 January 2008. The initial application of the other FRSs are not expected to have any material impact on the financial statements of the Company.

FRS 111, FRS 120, Amendment to FRS 121, FRS 134, and all the IC Interpretations are not applicable to the Company. Hence, no further disclosure is warranted.

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

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

The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in paragraph FRS 139.103AB.

### **(b) Basis of measurement**

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

General business assets and liabilities relate to both General Insurance Fund and Shareholders' Fund.

### **(c) Functional and presentation currency**

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

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

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

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

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

Note 2(j) - Provision for outstanding claims (including incurred but not reported claims)

## 2. Significant accounting policies

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

### (a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

### (b) Property, plant and equipment

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

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

#### (ii) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current period are as follows:

Office equipment	3 years
Office furniture, fittings and renovations	3 years
Motor vehicles	3 years
Computer equipment	3 years

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

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

### **(c) Investments**

Investments are recognised initially based on purchase price inclusive of transaction related costs. Subsequent to initial recognition, the investments are measured as follows:-

- (i) Malaysian Government Securities and other investments as specified by Bank Negara Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on a constant yield basis over the period from the date of acquisition of the security to the date of maturity. The amortisation of premiums and accretion of discounts are recognised in the revenue account.
- (ii) 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.
- (iii) Unquoted investments are stated at cost. A provision is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

### **(d) Receivables**

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established. Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

Known bad debts are written off and specific allowance are made for any outstanding premiums or reinsurance balances, which remain outstanding for more than 6 months from the date on which they become receivable and for all debts which are considered doubtful.

### **(e) Cash and cash equivalents**

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

## 2. Significant accounting policies (continued)

### (f) Impairment of assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### (g) Underwriting results

#### *General reinsurance*

The general reinsurance underwriting results are determined for each class of business after taking into account, inter alia, premium income, unearned premiums, acquisition cost and outstanding claims.

### (h) Unearned premium reserves

The Unearned Premium Reserves ("UPR") represents the portion of net premium income of reinsurance policies written that relates to the unexpired periods of the policies at the end of the financial year.

In determining the UPR at balance sheet date, the method that most accurately reflects the actual unearned premium is used. The methods used at the end of the current financial period are set out below.

## 2. Significant accounting policies (continued)

### (h) Unearned premium reserves (continued)

#### Malaysian and Non-Malaysian Business – method prescribed by Bank Negara Malaysia

“1/8” method is applied to premiums for Malaysian policies with a deduction of 20% from the amount. This is further adjusted for reinsurance ceded to foreign reinsurers by deducting the lower of:

- (i) the premium ceded to foreign reinsurers with a deduction for commission at a rate as prescribed in the Insurance Regulations, 1996; and
- (ii) the deposits retained from foreign reinsurers for which premiums are accounted during the preceding twelve months.

### (i) Payables

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

### (j) Provision for outstanding claims

A liability for outstanding claim is recognised in respect of inward reinsurance.

Provision for outstanding claims is made for the estimated costs of all claims together with related expenses less reinsurance recoveries in respect of claims notified but not settled at balance sheet date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported (“IBNR”) at balance sheet date, using a mathematical method of estimation by an independent actuary. The ultimate loss ratio method taking into account of industry loss ratios, market experience, historic experience for partial year and nature of business underwritten by the Company was used given that this is the first year of operations.

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.

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.

## 2. Significant accounting policies (continued)

### (k) Acquisition costs

The cost of acquiring and renewing reinsurance policies net of income derived from retroceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or retroceding 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.

### (l) Revenue recognition

Revenue represents reinsurance inwards premiums less returns and reinsurance outwards premiums.

#### (i) *Facultative business*

Premium from facultative business including premium in the pipeline is recognised as income on the inception date basis.

#### (ii) *Treaty business*

Premium from treaty business including premium in the pipeline is recognised on an accrual basis. The management of the Company is of the view that the policy gives a true and fair view of the Company's financial position and the results of its operations as it accords with the accrual basis of accounting, resulting in consistently four quarters of treaty business being booked in a particular financial year.

### (m) Other income recognition

Interest income is recognised as it accrues, using the effective interest method.

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

### (n) Employee benefits

#### *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.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

### **(n) Employee benefits (continued)**

The Company's contribution to statutory pension fund is charged to the income statement in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

### **(o) Tax expense**

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax liability is recognised for all taxable temporary differences.

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

### **(p) Leased assets**

Operating leased assets are not recognised on the Company's balance sheet. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives, if any, received are recognised as an integral part of the total lease expense, over the term of the lease.

### **(q) Affiliated company**

Affiliated company is a company having an equity interest of between 20% to 50% in the Company and including other corporations related to the first mentioned corporation.

### 3. Property, plant and equipment

<i>Cost</i>	Computer equipment RM	Office furniture, fittings and renovations RM	Office equipment RM	Motor vehicles RM	Total RM
Additions for the period	328,148	232,784	54,605	386,872	1,002,409
At end of the period	328,148	232,784	54,605	386,872	1,002,409
<i>Accumulated depreciation</i>					
Charge for the period	35,830	26,148	6,067	42,986	111,031
At end of the period	35,830	26,148	6,067	42,986	111,031
<i>Net book value</i>					
At 31 December 2007	292,318	206,636	48,538	343,886	891,378

### 4. Investments

	2007	
	Cost RM	Market value RM
Malaysian Government Securities	15,107,900	
Amortisation of premium	(11,803)	
	15,096,097	
Government Investment Issues	26,460,500	
Accretion of discount	1,537	
	26,462,037	
Quoted in Malaysia:		
Corporate bonds	92,963,800	
Accretion of discount	19,113	
Allowance for diminution in value	(207,813)	
	92,775,100	92,775,100

**4. Investments (continued)**

	_____ 2007 _____
	<b>Cost RM</b>
	<b>Market value RM</b>
Fixed and call deposits with: Licensed banks	122,236,357
	-----
	122,236,357
	-----
Total investments	256,569,591
	=====
<b>Investments maturing after twelve months:</b>	
Malaysian Government Securities	15,096,097
Government Investment Issues	26,462,037
Corporate bonds	77,792,600
	=====

**5. Receivables**

	2007 RM
<b>Trade</b>	
Amount due from cedants	15,917,753
Amount due from reinsurers	1,487,232
Allowance for doubtful debts	(523,243)
	-----
	16,881,742
	488,232
	-----
Premium/loss reserve deposits	17,369,974
	-----
<b>Non-trade</b>	
Other receivables, deposits and prepayments	85,855
Investment income due and accrued	1,204,875
Amount due from affiliated company	715,303
	-----
	2,006,033
	-----
	19,376,007
	=====

The amount due from affiliated company is unsecured, interest free and repayable on demand.

## 5. Receivables (continued)

### Analysis of foreign currency exposure for significant receivables

Significant receivables outstanding at period end that are not in the functional currencies of the Company are as follows:

		<b>2007 RM equivalent</b>
<b>Functional currency</b>	<b>Foreign currency</b>	
RM	USD	2,204,779
RM	SGD	103,634
		=====

## 6. Cash and cash equivalents

	<b>2007 RM</b>
Cash and bank balances	1,218,118
	=====

## 7. Provision for outstanding claims

	<b>2007 RM</b>
Provision for outstanding claims	12,624,850
Less: Recoveries from reinsurers	(422,510)
	-----
Net outstanding claims	12,202,340
	=====

## 8. Payables

	<b>2007 RM</b>
<b>Trade</b>	
Amount due to cedants	475,220
Amount due to affiliated company	779,386
	-----
	1,254,606
<b>Non-trade</b>	
Other payables and accrued liabilities	683,172
Amount due to ultimate holding company	151,648
Amount due to affiliated company	375,612
	-----
	2,465,038
	=====

## 8. Payables (continued)

The trade payables due to affiliated company are unsecured, interest free and subject to the normal trade terms. The non-trade payables due to ultimate holding company and affiliated company are unsecured, interest free and repayable on demand.

### Analysis of foreign currency exposure for significant payables

Significant payables that are not in the functional currencies of the Company are as follows:

Functional currency RM	Foreign currency USD	2007 RM equivalent
		567,132
		=====

## 9. Unearned premium reserves

2007	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscel- laneous RM	Total RM
At date of incorporation	-	-	-	-	-
Increase during the period	9,395,820	316,810	3,666,835	8,100,196	21,479,661
At 31 December	9,395,820	316,810	3,666,835	8,100,196	21,479,661
	=====	=====	=====	=====	=====

## 10. Share capital

	No. of shares	Total RM
Authorised:		
Ordinary shares of RM1 each	500,000,000	500,000,000
	=====	=====
Issued and fully paid:		
Ordinary shares of RM1 each		
At date of incorporation	2	2
Increase during the period	249,999,998	249,999,998
At end of the period	250,000,000	250,000,000
	=====	=====

## 11. Operating revenue

<b>2007</b>	<b>Shareholders' fund RM</b>	<b>General business RM</b>	<b>9.2.2007 to 31.12.2007 Total RM</b>
Gross premium	-	36,933,676	36,933,676
Investment income (Note 14)	3,203,108	3,883,395	7,086,503
	<u>3,203,108</u>	<u>40,817,071</u>	<u>44,020,179</u>
	=====	=====	=====

## 12. Net claims incurred

<b>2007</b>	<b>Fire RM</b>	<b>Motor RM</b>	<b>Marine, Aviation &amp; Transit RM</b>	<b>Miscel- laneous RM</b>	<b>9.2.2007 to 31.12.2007 Total RM</b>
Gross claims paid less salvage	937,181	-	36,589	108,415	1,082,185
Reinsurances recoveries	(56,701)	-	-	-	(56,701)
	<u>880,480</u>	<u>-</u>	<u>36,589</u>	<u>108,415</u>	<u>1,025,484</u>
Net claims paid	880,480	-	36,589	108,415	1,025,484
Net outstanding claims:					
At 31 December	6,352,731	214,000	2,931,160	2,704,449	12,202,340
Portfolio assumption	(4,057,404)	-	-	(484,917)	(4,542,321)
At date of incorporation	-	-	-	-	-
	<u>3,175,807</u>	<u>214,000</u>	<u>2,967,749</u>	<u>2,327,947</u>	<u>8,685,503</u>
	=====	=====	=====	=====	=====
Net claims incurred	3,175,807	214,000	2,967,749	2,327,947	8,685,503

**13. Management expenses**

	<b>9.2.2007 to 31.12.2007 RM</b>
Insurance fund	
Staff salaries and related expenses	794,274
Directors' remuneration	
- fees	-
- other remuneration	167,817
Auditors' remuneration	67,500
Rental of office premises	87,850
Depreciation	111,031
Allowance for bad and doubtful debts	523,243
Management fees	355,415
Other expenses	908,750
	<hr/>
	3,015,880
	-----
Shareholders' fund	
Management fees	71,900
Other expenses	157,900
	<hr/>
	229,800
	-----
	3,245,680
	=====

**14. Investment income**

	<b>9.2.2007 to 31.12.2007 RM</b>
Insurance fund	
Interest income from:	
Malaysian Government Securities	202,747
Government Investment Issues	241,374
Corporate bonds	807,173
Fixed and call deposits	2,750,883
Others	16,971
Accretion of discounts net of amortisation of premiums of Government Securities and Corporate Bonds	8,847
Investment expenses	(144,600)
	<hr/>
	3,883,395
	-----

**14. Investment income (continued)**

	<b>9.2.2007 to 31.12.2007 RM</b>
Shareholders' fund	
Interest income from fixed and call deposits	3,230,308
Investment expenses	(27,200)
	<hr/>
	3,203,108
	<hr/>
	7,086,503
	<hr/> <hr/>

**15. Other expenditure - net**

	<b>9.2.2007 to 31.12.2007 RM</b>
Insurance fund	
Realised gain on foreign exchange	(18,743)
Unrealised loss on foreign exchange	19,134
Loss on disposal of investments	148,811
Allowance for diminution in value of quoted investments	207,813
	<hr/>
	357,015
	<hr/> <hr/>

**16. Key management personnel compensation**

The key management personnel compensation is as follows:

	<b>9.2.2007 to 31.12.2007 RM</b>
Executive Director	
- Remuneration	167,817
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	8,183
	<hr/>
	176,000
	<hr/> <hr/>

**17. Tax expense**

	<b>9.2.2007 to 31.12.2007 RM</b>
Current year tax expense	-
	=====
<b>Reconciliation of tax expense</b>	
Loss before taxation	(7,699,785)
	=====
Income tax using Malaysian tax rate of 27%	(2,078,942)
Non-deductible expenses	1,065,381
Deferred tax assets not recognised	1,013,561
	-----
Tax expense	-
	=====

No deferred tax has been recognised for the following items:

Unabsorbed capital allowances	222,504
Unutilised tax losses	3,446,558
Other taxable temporary differences	84,868
	-----
	3,753,930
	=====

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

**18. Operating leases****Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	<b>2007 RM</b>
Less than one year	159,300
Between one and five years	103,235
	-----
	262,535
	=====

The Company leases office space and some office equipment under operating leases. The leases typically run for a period ranging from 2-5 years, with an option to renew the leases after that date.

## **19. Related parties**

### **Identity of related parties**

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

#### **i) Ultimate holding company**

The ultimate holding company is Khazanah Nasional Berhad, a corporation incorporated in Malaysia.

#### **ii) Affiliated company**

The affiliated company is a company having an equity interest of between 20% to 50% in the Company and including other corporations related to the first mentioned corporation.

#### **iii) Key management personnel**

Key management personnel include the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The Executive and Non-Executive Directors compensation is disclosed in Note 16.

Company No. 762294-T
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## 19. Related parties (continued)

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

	<b>Transactions amount for the period ended 31 December RM</b>	<b>Gross balance outstanding at 31 December RM</b>	<b>Net balance outstanding at 31 December RM</b>	<b>Allowance for doubtful receivables at 31 December RM</b>	<b>Bad or doubtful receivables recognised for the period end 31 December RM</b>
<b>2007</b>					
<b>Ultimate holding company</b>					
Administrative expenses	151,648	151,648	151,648	-	-
<b>Affiliated company</b>					
Resource sharing costs	375,612	375,612	375,612	-	-
Gross premium retroceded	10,665,459	966,379	966,379	-	-
Commission income	509,540	130,292	130,292	-	-
Claims recovery	56,701	56,701	56,701	-	-
Gross premium accepted	1,920,984	-	-	-	-
Commission expense	401,133	-	-	-	-
Claims paid	18,520	-	-	-	-

## **20. Financial instruments**

### **Financial risk management objectives and policies**

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

### **Underwriting risk**

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the unforeseen nature, frequency and severity and the risk of change in legal or economic conditions or behavioral patterns affecting insurance pricing and conditions of reinsurance cover. This may result in the Company having either received inadequate premium for the risks it has agreed to underwrite and hence insufficient funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks by considering a balanced mix and spread of business types and by observing strict underwriting guidelines and limits, adequate estimation of the claims provisions and high standards applied to the security of reinsurers and cedants.

### **Credit risk**

Credit risk arises when accepting reinsurance premiums on deferred credit terms. Management has a credit control policy in place to ensure that the exposure to credit risk is monitored on an ongoing basis. At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Company is represented by the carrying amount of each financial asset in the balance sheet.

The Company also seeks to invest its funds safely and profitably. There is no significant credit risk on its investments as the investments held are primarily low risk assets.

### **Interest rate risk**

The Company's earnings may be affected by changes in market interest rates as the impact of such changes may increase or reduce interest income from deposit placements and fixed income securities. Investment guidelines have been formulated to mitigate the risks in respect of the Company's investments, including establishment of counterparty limits and portfolio diversification. In addition, deposit placements are made with varying maturity dates and rates.

## 20. Financial instruments (continued)

### Foreign currency risk

The Company is exposed to foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia. The currencies giving rise to this risk are primarily US Dollars (USD) and Singapore dollars (SGD). Exposures to foreign currency risks are monitored by the Company on an ongoing basis.

In respect of other monetary assets and liabilities held in currencies other than Ringgit Malaysia, the Company does not have a policy of entering into forward exchange contracts to hedge its currency exposure. However, the management monitors this on an ongoing basis.

### Liquidity risk

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

### *Effective interest rates and repricing analysis*

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

Company No. 762294-T
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## 20. Financial instruments (continued)

	Average effective interest rate %	Total RM	Less than 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	More than 5 years RM
<b>2007</b>								
<b>Fixed rate instruments</b>								
<b>Financial assets</b>								
Malaysian government securities	3.77	15,096,097	-	-	14,100,075	-	-	996,022
Government investment issues	3.58	26,462,037	-	-	-	-	26,462,037	-
Corporate bonds	4.34	92,775,100	14,982,500	-	14,076,000	25,320,000	19,937,000	18,459,600
Fixed and call deposits	3.40	122,236,357	122,236,357	-	-	-	-	-
		<u>256,569,591</u>	<u>137,218,857</u>	<u>-</u>	<u>28,176,075</u>	<u>25,320,000</u>	<u>46,399,037</u>	<u>19,455,622</u>
<b>Non interest sensitive financial assets</b>								
Cash and cash equivalents		1,218,118	1,218,118	-	-	-	-	-
		<u>257,787,709</u>	<u>138,436,975</u>	<u>-</u>	<u>28,176,075</u>	<u>25,320,000</u>	<u>46,399,037</u>	<u>19,455,622</u>

## 20. Financial instruments (continued)

### *Fair values*

#### *Recognised financial instruments*

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

	<b>Carrying amount RM</b>	<b>Fair value RM</b>
<b>Financial assets</b>		
Malaysian government securities	15,096,097	15,210,173
Government investment issues	26,462,037	26,339,768
Corporate bonds	92,775,100	92,775,100
	<u>134,333,234</u>	<u>134,325,041</u>
	=====	=====

The fair values of Malaysian government securities and government investment issues are their quoted bid prices at the balance sheet date. The fair value of corporate bonds is the closing market price at the balance sheet date.

In respect of fixed and call deposits, cash and cash equivalents, trade and other receivables, trade and other payables, the carrying amounts in the balance sheet approximate their fair values due to the relatively short term nature of these financial instruments.

## 21. Capital commitments

	<b>2007 RM</b>
<b>Property, plant and equipment</b>	
Contracted but not provided for	30,138,220
	=====

## 22. Comparative figures

There are no comparatives as this is the first set of financial statements since date of incorporation.