

JERNEH ASIA BERHAD  
(363984-X)

ANNUAL REPORT 2005



Listed on Bursa Malaysia Securities Berhad





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## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 10TH ANNUAL GENERAL MEETING of the Company will be held at 19th Floor, Wisma Jerneh, 38 Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 24th May 2006 at 9.30 a.m. for the following purposes :-

1. To receive and adopt the Audited Accounts for the financial year ended 31st December 2005, and the Reports of the Directors' & Auditors' thereon. Resolution 1
2. To declare a First and Final Dividend of 5 sen per share less 28% Income Tax for the financial year ended 31st December 2005. Resolution 2
3. To approve an increase in Directors' Fees for the financial year ended 31st December 2005. Resolution 3
4. To re-elect the following Directors who retire in accordance with Article 101 of the Articles of Association of the Company :
  - 4.1 Encik Ahmad Riza bin Basir Resolution 4
  - 4.2 Mr Graham Hecmond Wong. Resolution 5
5. To re-appoint Moores Rowland as Auditors of the Company and authorise the Directors to fix their remuneration. Resolution 6
6. **Special Business**

To consider, and if thought fit, pass the following Ordinary Resolutions : -

  - 6.1 *Authority to issue and allot shares*

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the total number of shares issued pursuant to this resolution in any one financial year does not exceed ten percent (10%) of the issued and paid-up share capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting ("AGM") of the Company." Resolution 7

6. **Special Business (cont'd)**

6.2 *Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature*

"**THAT** the mandate given by the shareholders of the Company on 25th May 2005 pursuant to paragraph 10.09 of the Listing Requirements of the Bursa Malaysia Securities Berhad, authorising the Company and its subsidiaries ("Jerneh Group") to enter into recurrent transactions of a revenue or trading nature as set out in paragraph 3 of the Circular to Shareholders dated 28th April 2006 with the related parties mentioned therein which are necessary for the Jerneh Group's day to day operations, be and is hereby renewed subject further to the following :-

- (i) the transactions are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders; and
- (ii) disclosure is made in the annual report of the aggregate value of the transactions conducted pursuant to the shareholders' mandate during a financial year;

**AND THAT** the authority conferred by such renewed mandate shall, unless revoked or varied by the Company in a general meeting continue to be in force until the conclusion of the next AGM of the Company following the forthcoming AGM at which the Proposed Renewal of Recurrent Related Party Mandate is approved;

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature."

**Resolution 8**

- 7. To transact any other business of which due notice has been given.

By Order of the Board

**CHOY CHIEW LING**  
Company Secretary

Kuala Lumpur  
28th April 2006

NOTES :

1. **Appointment of Proxy**

- (i) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies (but not more than two) to attend and vote in his/her stead. A proxy may but need not be a member of the Company. Where a member appoints two proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy.
- (ii) The instrument appointing the proxy, in the case of an individual, shall be signed by the appointer, or his attorney duly authorised in writing and in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised.
- (iii) The instrument appointing the proxy, must be deposited at the Registered Office of the Company at 18th Floor, Wisma Jerneh, 38 Jalan Sultan Ismail, 50250 Kuala Lumpur, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

2. **Proposed Increase in Directors' Fees**

It is proposed that the Directors' fees be increased from RM184,633 to RM191,747 for the year ended 31st December 2005.

3. **Explanatory Notes on Special Business Authority to issue and allot shares**

The proposed Ordinary Resolution is to empower the Directors to issue shares in the Company up to an amount not exceeding in total ten percent (10%) of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, shall be valid until the conclusion of the next Annual General Meeting of the Company.

**Proposed Renewal of Shareholders' Mandate**

The proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature is set out in the circular to Shareholders dated 28th April 2006 which is despatched together with the Company's 2005 Annual Report.

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

### 1. DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE TENTH ANNUAL GENERAL MEETING OF THE COMPANY ARE :-

- a. Ahmad Riza bin Basir
- b. Graham Hecmond Wong

### 2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

Five (5) Board Meetings were held during the financial year from 1st January 2005 to 31st December 2005.

Details of attendance of Directors at the Board Meetings are as follows :-

Directors	Attended
Dato' Lim Chee Wah ( <i>Chairman</i> )	5 of 5 meetings held
Tan Yew Jin ( <i>Deputy Chairman &amp; Executive Director</i> )	5 of 5 meetings held
Tam Chiew Lin ( <i>Managing Director</i> )	5 of 5 meetings held
Anwarudin bin Hj Abdul Rahman	5 of 5 meetings held
Ahmad Riza bin Basir	4 of 5 meetings held
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	4 of 5 meetings held
Graham Hecmond Wong	5 of 5 meetings held
Dato' Seri Ismail Farouk bin Abdullah *	3 of 5 meetings held

\* resigned with effect from 29th November 2005

### 3. PLACE, DATE AND TIME OF THE TENTH ANNUAL GENERAL MEETING

The Tenth Annual General Meeting of the Company is scheduled to be held at 19th Floor, Wisma Jerneh, 38 Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 24th May 2006 at 9.30 a.m.

### 4. DETAILS OF DIRECTORS WHO ARE STANDING FOR RE-ELECTION AS DIRECTORS

The details of the Directors who are standing for re-election are disclosed under the Profile of the Board of Directors on pages 6 to 9 of this Annual Report. The shareholdings of these Directors in the Company and its subsidiaries are disclosed under the Shareholdings Statistics on pages 86 to 89 of this Annual Report.

### BOARD OF DIRECTORS

Dato' Lim Chee Wah - *Chairman*

Tan Yew Jin - *Deputy Chairman & Executive Director*

Tam Chiew Lin - *Managing Director*

YM Raja Dato' Seri Abdul Aziz bin Raja Salim - *Independent Non-Executive Director*

Ahmad Riza bin Basir - *Non-Independent Non-Executive Director*

Anwarudin bin Hj Abdul Rahman - *Independent Non-Executive Director*

Graham Hecmond Wong - *Non-Independent Non-Executive Director*

### AUDIT COMMITTEE

YM Raja Dato' Seri Abdul Aziz

bin Raja Salim - *Chairman*

Tan Yew Jin

Anwarudin bin Hj Abdul Rahman

### REGISTERED OFFICE

18th Floor, Wisma Jerneh

38 Jalan Sultan Ismail

50250 Kuala Lumpur

Telephone : 03-2141 4255

Facsimile : 03-2142 1677

### MANAGEMENT COMMITTEE

Tan Yew Jin - *Chairman*

Tam Chiew Lin

Ahmad Riza bin Basir

### PRINCIPAL BANKER

Malayan Banking Berhad

Bangunan Yayasan Selangor

Jalan Bukit Bintang

55100 Kuala Lumpur

### INVESTMENT COMMITTEE

Dato' Lim Chee Wah - *Chairman*

Tan Yew Jin

Tam Chiew Lin

Ahmad Riza bin Basir

### AUDITORS

Moore's Rowland

*Chartered Accountants*

7th Floor, South Block

Wisma Selangor Dredging

142-A Jalan Ampang

50450 Kuala Lumpur

### REMUNERATION COMMITTEE

Anwarudin bin Hj Abdul Rahman - *Chairman*

Tam Chiew Lin

Graham Hecmond Wong

### REGISTRARS

PPB Corporate Services Sdn Bhd

14th Floor, Wisma Jerneh

38 Jalan Sultan Ismail

50250 Kuala Lumpur

Telephone : 03-2141 2077

Facsimile : 03-2141 8242

### OPTION COMMITTEE

Tan Yew Jin - *Chairman*

Tam Chiew Lin

Anwarudin bin Hj Abdul Rahman

### COMPANY SECRETARY

Choy Chiew Ling

MAICSA : 7012415

### STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad

(Main Board)

Sector : Finance

Stock Number : 6394

ISIN : MYL639400000

Reuters Code : JNEH.KL

### WEBSITE

[www.jerneh.com.my](http://www.jerneh.com.my)

## PROFILE OF THE BOARD OF DIRECTORS

### DATO' LIM CHEE WAH

(66 years of age - Malaysian)  
Chairman/Non-Independent Non-Executive Director  
Chairman of Investment Committee

Dato' Lim Chee Wah was appointed as a Director of Jerneh Asia Berhad on 27th June 1996 and assumed the position of Chairman on 2nd September 2002. He obtained his Bachelor of Arts (Honours) Degree in Economics from the University of Malaya in 1963.

Dato' Lim is the Deputy Chairman of PPB Group Berhad, a position he held since 1st July 2004. He is also the Executive Chairman of Malayan Sugar Manufacturing Co. Bhd. since August 2001. He sits on the Board of Malaysian Bulk Carriers Berhad, Tradewinds (M) Berhad, Kuok Foundation Berhad (a charitable organisation), Jerneh Insurance Berhad and Kuok Brothers Sdn Berhad.

Dato' Lim does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no conviction for any offences within the past 10 years. He attended all the Board Meetings held during the financial year ended 31st December 2005.

### MR TAN YEW JIN

(64 years of age - Malaysian)  
Deputy Chairman & Executive Director  
Chairman of Option Committee and Management Committee  
Member of Audit Committee and Investment Committee

Mr Tan Yew Jin was appointed as a Director of Jerneh Asia Berhad on 27th June 1996 and was elected as Deputy Chairman on 11th May 2001. On 26th August 2004, he assumed the position of Executive Director. He is an Accountant by profession and is a member of Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants, CPA Australia and a Fellow of the Institute of Certified Public Accountants of Singapore.

Currently, Mr Tan is also the Executive Director of PPB Group Berhad and a Director of Tradewinds (M) Berhad, Jerneh Insurance Berhad and Kuok Brothers Sdn Berhad.

Mr Tan does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no conviction for any offences within the past 10 years. He attended all the Board Meetings held during the financial year ended 31st December 2005.

**MS TAM CHIEW LIN**

(55 years of age - Malaysian)

Managing Director

Member of Management Committee, Remuneration Committee, Investment Committee and Option Committee

Ms Tam Chiew Lin was appointed as a Director of Jerneh Asia Berhad on 27th June 1996 and assumed the position of Executive Director on 1st August 2000. On 29th November 2005, she was re-designated as the Managing Director of the Jerneh Group. She is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Malaysian Association of Certified Public Accountants and the Malaysian Institute of Accountants. In 1987, she received her Diploma in Applied International Management from the Swedish Institute of Management and in 1995, she received her Postgraduate Certificate in Banking and Finance from the University of Bangor, Wales.

Ms Tam also sits on the Board of Jerneh Insurance Berhad and several other subsidiaries of the Jerneh Group.

Ms Tam does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. She has had no conviction for any offences within the past 10 years. She attended all the Board Meetings held during the financial year ended 31st December 2005.

**YM RAJA DATO' SERI ABDUL AZIZ BIN RAJA SALIM**

(67 years of age - Malaysian)

Independent Non-Executive Director

Chairman of the Audit Committee

YM Raja Dato' Seri Abdul Aziz bin Raja Salim was appointed to the Board of Jerneh Asia Berhad on 27th June 1996. He is a Fellow member of the Chartered Institute of Management Accountants since 1986 and the Chartered Association of Certified Accountants, United Kingdom since 1983. He is also a member of the Malaysian Institute of Accountants since 1976 and a Fellow member of the Malaysian Institute of Taxation since 1992.

YM Raja Dato' Seri Abdul Aziz served as the Director-General of the Inland Revenue from 1980 to 1990 and as the Accountant-General Malaysia from 1990 to 1994. Currently, he sits on the Board of Amanah Saham Mara Berhad, Camerlin Group Berhad, Gamuda Berhad, Gran Asia Corporation Berhad, K&N Kenanga Holdings Berhad Group, Matsushita Electric Company (M) Berhad, PPB Group Berhad, PPB Oil Palms Berhad, Southern Steel Berhad and Tasek Corporation Berhad. He also serves on the Board of Jerneh Insurance Berhad and several other private limited companies in Malaysia.

YM Raja Dato' Seri Abdul Aziz does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the company. He has had no conviction for any offences within the past 10 years. He attended four out of five Board Meetings held during the financial year ended 31st December 2005.

## Profile of the Board of Directors (cont'd)

### ENCIK AHMAD RIZA BIN BASIR

(45 years of age - Malaysian)

Non-Independent Non-Executive Director

Member of Management Committee and Investment Committee

Encik Ahmad Riza bin Basir was appointed to the Board of Jerneh Asia Berhad on 27th June 1996. He is a lawyer by training. He graduated with a Bachelor of Law (Honours) degree from the University of Hertfordshire, Hertford, United Kingdom and Barrister at Law (Lincoln's Inn), London in 1984 and was called to the Malaysian Bar in 1986.

Encik Riza is currently the Chairman of Fima Corporation Berhad, the Group Managing Director of Kumpulan Fima Berhad and a director of Manulife Insurance (Malaysia) Berhad, KESM Industries Berhad, United Plantations Berhad and Jerneh Insurance Berhad. He also sits on the Board of several other private limited companies in Malaysia.

Encik Riza and persons connected with him are deemed major shareholders of the Company by virtue of their substantial shareholdings in BHR Enterprise Sdn Bhd. He has had no conviction for any offences within the past 10 years. He attended four out of the five Board Meetings held during the financial year ended 31st December 2005.

### ENCIK ANWARUDIN BIN HJ ABDUL RAHMAN

(57 years of age - Malaysian)

Independent Non-Executive Director

Chairman of Remuneration Committee

Member of Audit Committee and Option Committee

Encik Anwarudin bin Hj Abdul Rahman was appointed as a Director of Jerneh Asia Berhad on 27th June 1996. He obtained his Bachelor of Economics (Hons) Degree in Rural Economics from the University of Malaya in 1971 as well as Masters Degree in Law and Diplomacy from Tufts University, USA in 1983.

Encik Anwarudin served the Malaysian Ministry of Foreign Affairs in various positions from January 1971 to January 1990 before joining PPB Group Berhad as Senior Manager on 1st March 1990. He also sits on the Board of Ophir Holdings Berhad, Jerneh Insurance Berhad and several other private limited companies in Malaysia.

Encik Anwarudin does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no conviction for any offences within the past 10 years. He attended all the Board Meetings held during the financial year ended 31st December 2005.

**MR GRAHAM HECMOND WONG**

(50 years of age - Australian)  
Non-Independent Non-Executive Director  
Member of Remuneration Committee

Mr Graham Hecmond Wong was appointed as a Director of Jerneh Asia Berhad on 2nd September 2002. He holds a Bachelor of Commerce (Honours) Degree from the University of New South Wales, Australia. He is a Chartered Accountant and a member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants.

Mr Wong is currently the Associate Director of Treasury of Kerry Holdings Limited, Hong Kong and Alternate Director/Treasurer of Kuok Brothers Sdn Berhad. He is also a Director of PPB Oil Palms Berhad ("PPBOP") and President Director of PPBOP's subsidiaries in Indonesia.

Mr Wong does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has had no conviction for any offences within the past 10 years. He attended all the Board Meetings held during the financial year ended 31st December 2005.

## GROUP FINANCIAL HIGHLIGHTS

### INCOME STATEMENT

	2004 RM'000	2005 RM'000	% CHANGE
Operating revenue	182,978	195,270	7
Profit before taxation	33,922	27,024	(20)
Profit after taxation and minority interest	20,971	15,104	(28)

### BALANCE SHEET

Total assets	658,126	739,596	12
Shareholders' funds	274,107	287,854	5

### RATIOS

Net earnings per share	Sen	19.40	13.90	(28)
Net dividends per share	Sen	5.76	3.60	(38)
Net tangible assets per share	RM	2.53	2.65	5

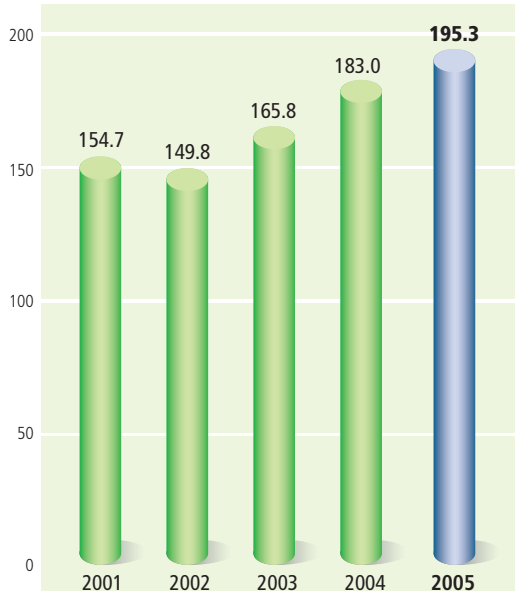
### FIVE YEARS' GROUP STATISTICS

year ended 31st December

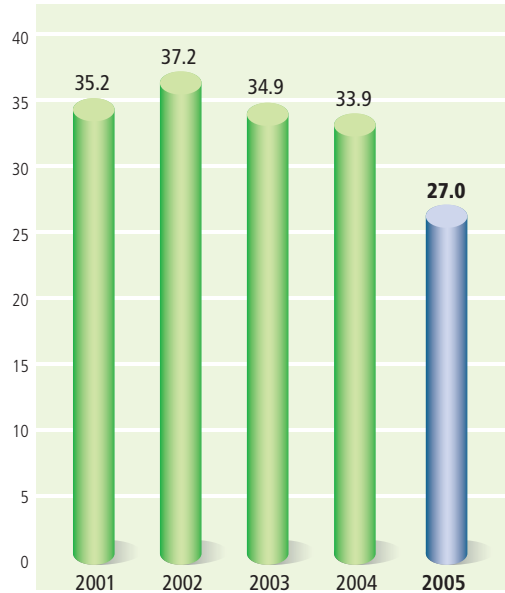
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	
Operating revenue	154,725	149,791	165,753	182,978	195,270	
Operating profit	36,032	39,312	41,089	40,437	33,999	
Share of results of associated company	(866)	(2,153)	(6,149)	(6,515)	(6,975)	
Profit before taxation	35,166	37,159	34,940	33,922	27,024	
Profit after taxation and minority interest	20,937	24,959	23,411	20,971	15,104	
Dividends – net	5,978	6,033	6,175	6,243	3,917	
Issued share capital	103,777	104,730	107,202	108,389	108,802	
Shareholders' funds	207,684	232,992	256,865	274,107	287,854	
Total assets employed	521,592	570,011	612,663	658,126	739,596	
Net earnings per share	Sen	20.17	23.92	22.25	19.40	13.90
Share price						
High	RM	2.15	2.48	2.55	2.51	2.39
Low	RM	1.60	1.97	1.95	2.13	2.02

# FIVE-YEAR GROUP PERFORMANCE CHARTS

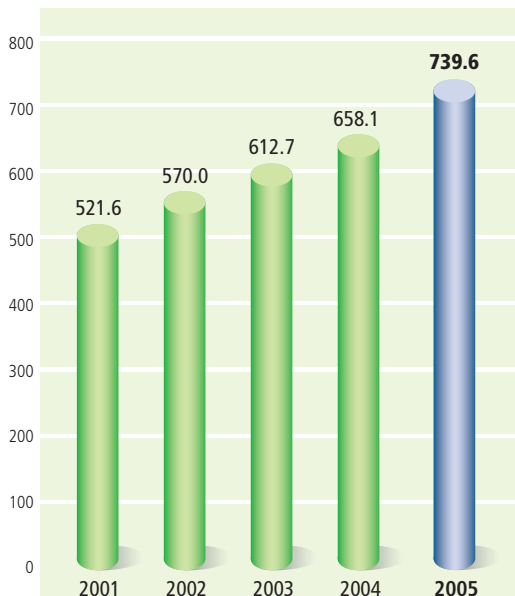
OPERATING REVENUE  
(RM Million)



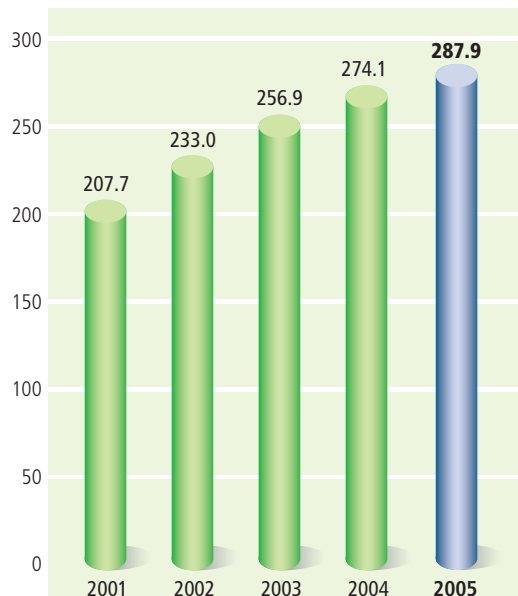
PROFIT BEFORE TAXATION  
(RM Million)



TOTAL ASSETS EMPLOYED  
(RM Million)



SHAREHOLDERS' FUNDS  
(RM Million)





### PERFORMANCE FOR 2005

Overall, 2005 was a year of sustained progress for the Group's investments overseas. Thailand and Philippines and our recent investment into Indonesia will continue to generate high growth momentum and potential future earnings for the Group.

On the home front, the relentless pace of liberalisation and deregulation by Bank Negara Malaysia ("BNM") has led to further intensifying competition and Jerneh Insurance Berhad as a domestic company in general insurance business will continue to be challenged to be competitive, efficient, lean whilst remaining profitable.

The Group's result for the year 2005 was below expectation. Pre-tax profit of RM27.6 million represented a decrease of 20% against 2004's result of RM33.9 million. The Group's net tangible assets improved 4.7% from RM2.53 per share to RM2.65 per share. The Group's result was affected by higher claims experience, lower investment income and higher expense ratio in JIB.

**Jerneh Insurance Bhd ("JIB")** generated total gross written premiums of RM289.6 million, achieving a very commendable 15.7% growth over the year 2004. JIB's premium growth tracked the performance of the motor insurance sector which achieved its most significant growth in 2005 of 14.4% as per BNM's report. Motor premium accounted for 65.3% of the increase in total premiums during the year. This was largely attributable to initiatives already implemented to expand JIB's agency force, which is being strengthened through training programs for delivery of high service standards and the completion of the core IT infrastructure for policy processing.



Net claims incurred by JIB registered 64.6% as compared to 62.4% in 2004. Due to the increase in the reserves and net claims incurred, JIB's combined ratio has declined somewhat to 97.48% from 95.14%. Underwriting surplus before management expenses was higher by 6.4% at RM41.86 million as compared to last year's figure of RM39.36 million. The last two year's investment in infrastructure cost in human resource and IT were at a level somewhat higher than industry average. We strongly believe in these investments as it would lay the foundation for continued future growth. Including investment income of RM23.74 million (2004 : RM27.38 million), JIB closed the year with a profit before tax of RM29.92 million as compared to RM32.89 million for the previous year.

#### OVERSEAS INVESTMENT

To date, with the recent inclusion of Indonesia, Jerneh's long term investment in the life and general sectors in the growing economies of Philippines, Thailand and Indonesia as well as the strategic partnership with HSBC into Takaful (family life and general sectors) in Malaysia augurs well for the future of the Jerneh Group.

The Group is gradually being transformed from a purely domestic based general insurance company to an Asean based insurer in both life and general business. Jerneh would eventually reap lifetime dividends when the life investments mature and reach their full potential in their respective countries.

**Generali Philippines** has delivered in 2005 and will deliver its 8 year planned target and breakeven in the year 2008. 2005 premium growth of 125% was impressive. Although pretax profits are still not forthcoming in the year under review the underlying value of the investment is locked up in the embedded value of the in force business, actuarial surplus and its bancassurance tie up with Banco De Oro, one of the top 3 banks in Philippines.

**Generali Thailand** completed their 3rd full-year operations. The year 2005 has proven to be a challenging year. The search for a strategic alliance with a local bank to promote bancassurance is still on-going. Hence, growth is solely dependent on the agency force to bring in production.

### PROSPECTS

The Malaysian economic and financial landscape continues to be dramatically transformed with the insurance industry facing key issues such as defining effective growth business models, managing risks in an increasingly complex and volatile environment whilst responding to the challenges of regulatory and accounting changes for greater transparency. The implementation of capital and risk management will increase with the introduction of risk based capital regime expected to be introduced by 2007. Jerneh has prepared itself to meet the requirements of the Risk Based Capital Framework.

On 2nd March 2006, the Group achieved another milestone when it was awarded a Takaful licence together with HSBC Insurance (Asia-Pacific) Holdings Limited and The Employees Provident Fund Board. Business implementation and operational planning is underway for the new Takaful company which is expected to begin operations second half of 2006.

Going forward, the Board will continue exploring opportunities for regional expansion, particularly in countries with low entry costs and sizeable insurance spending potential so as to maximize investment returns.

### DIVIDENDS

Your Board of Directors is pleased to recommend a First and Final Dividend of 5% less income tax of 28% per ordinary share for the financial year ended 31st December 2005.

### CORPORATE GOVERNANCE

The Group subscribes to and will strive to achieve the recommended Best Practices outlined in Bank Negara Malaysia's JPI/GPI 25 - Prudential Framework of Corporate Governance for Insurers and Malaysian Code on Corporate Governance.

### ACKNOWLEDGEMENT

On 29th November 2005, Dato' Seri Ismail Farouk bin Abdullah resigned as a Director of the Group after 9 years of service. On behalf of the Board, I would like to put on record our appreciation to Dato' Seri Ismail Farouk bin Abdullah for his invaluable advice and contribution to the Group.

I would also like to extend my appreciation and gratitude to the Management and staff of the Group for their hard work, commitment and loyalty; Bank Negara Malaysia and the other relevant authorities for their guidance; our valued customers, business associates, agents, brokers and reinsurers for their continued support and assistance.

Last but not least, I wish to express my gratitude to the shareholders and the members of the Board of Directors who have remained committed to the Company and have given their consistent and unwavering support to the Group.

**DATO' LIM CHEE WAH**

Chairman



### OVERVIEW

Jerneh Asia Berhad ("JAB") is an investment holding company. The Group's primary activity is the underwriting of general insurance business providing a complete range of general insurance products and services.

To complement the insurance operations, JAB has diversified into related insurance services covering life insurance, reinsurance, insurance and reinsurance broking, Takaful insurance and credit leasing. The subsidiaries and affiliates operate in Malaysia, Hong Kong, Philippines, Thailand and Indonesia.

### GENERAL INSURANCE

The General Insurance division offers a wide range of products and services and is recognized for its commercial insurance leadership. It caters to the insurance needs of small and large sized businesses and personal lines business.

Established in 1971, **Jerneh Insurance Berhad ("JIB")** has distinguished itself as a specialist/leader in the large scale risk business of marine, industrial and engineering risks. JIB continues to build upon this strength and capabilities and has invested into technology and human capital that can deliver both measurable results and provide personalised services to meet the needs of our clients. Continuing on our longer term IT initiative that started in 2003, JIB continues to devote considerable resources and efforts to ensure that we provide quality services to meet our commitments to our policyholders, agents, brokers and business partners.

### GENERAL INSURANCE (cont'd)

The comprehensive range of general insurance products and services include property and pecuniary insurance, liability insurance, marine insurance, personal accident insurance, medical insurance, motor insurance and construction and engineering insurance. In 2005, JIB was admitted into the Foreign Workers' Compensation Scheme (FWCS) panel by the Ministry of Human Resource. This has enabled JIB to begin offering FWCS policies and its associated Insurance Guarantee (IG). JIB's latest offerings apart from FWCS are two new personal accident products - Drivecare PA and XL Shield PA. All these new products are designed to complement our product range to meet the varied and discerning needs of our customers. Over the years, JIB has focused on product development and services and offers both private and corporate customers, tailor-made insurance solutions.

JIB maintains a special arrangement with Maphilindo International Sdn Bhd to provide "JERNEH HELPLINE" 24-hour Toll Free emergency auto assistance programme for its motor policyholders. The benefits include:-

- 24-hour Towing Service following an Accident
- 24-hour Emergency Breakdown and Roadside Repair Services
- 6 months warranty on all repairs
- Medical referrals and Emergency Medical Evacuation assistance
- Travel Assistance, Hotel Accommodation referrals
- Legal Assistance referrals
- 24-hour Police Assistance
- Home Assist Services.

Currently, JIB has about 1,338 agents and 19 branches strategically located in major cities and towns in Peninsular Malaysia, Sabah and Sarawak. The distribution provides a geographically diversified group of independent agents and brokers with a wide spread of insurance products customized to serve our clients in all respective areas.

### INSURANCE AND REINSURANCE BROKING

The broking subsidiaries provide insurance solutions for our corporate clients in Hong Kong, China and the Philippines by way of leveraging on Jerneh's experiences in insurance and risk management services.

With its 10 years broking experience in China, **Taishan Insurance Brokers Limited ("TIBL")** has become a significant captive insurance broker in the Hong Kong and China insurance market for the Kuok Group where it provides insurance and risk management services. TIBL collaborates with other large international brokers throughout Asia Pacific and insurers in the region to service group business.

**Taishan Insurance Brokers Phils, Inc. ("TIBP")** and **KRM Reinsurance Brokers Phils., Inc. ("KRMR")** are wholly-owned subsidiaries of the Group in the Philippines. In the Philippines, the broking divisions are separated into insurance-broking (direct) and reinsurance broking to cater to the needs of the local market. TIBP is retained as the risk management advisor to the Kuok Group in Philippines while KRMR being a reinsurance broker is strongly supported by the Philippines insurers who are their clients. In the year under review as a reinsurer broker, KRMR retained its number 1 ranking in terms of income and number 3 in terms of premium produced in the Philippines.

### AFFILIATED BUSINESSES

The following companies were established to complement the insurance services of the Group :-

**Jerneh Asia Reinsurance Ltd. ("JAR")** an offshore composite reinsurer continues to support the Government's plans to promote Labuan as an offshore financial center. JAR operates as a captive reinsurer for JIB, Jerneh Insurance (HK) Ltd and affiliated companies in the Philippines.

**Jerneh Credit Leasing Sdn Bhd ("JCL")** specialises in hire purchase and lease financing of capital equipment covering the agricultural, manufacturing, construction and transportation sectors. For the past 8 years, JCL has played a key role for client businesses in the small and medium sized enterprises (SMEs) by providing cost-effective alternatives for capital equipment acquisition. JCL continues to focus on the SMEs and channels the commercial and personal line insurance businesses to JIB.

### PARTNERSHIP WITH GENERALI

JAB's strategic partnership with Assicurazioni Generali S.p.A., ("Generali") the largest composite insurer in Italy to expand into the Asian region has led to the establishment of Generali Asia N.V., a joint venture investment holding company incorporated in the Netherlands between JAB and Generali in 1999. This partnership will continue to explore new business opportunities through investments in areas with high growth for the insurance sectors.

The Group has, through Generali Asia N.V., entered into a joint venture with the SM Group of the Philippines to establish Generali Pilipinas Holding Inc. for investment in wholly-owned Generali Pilipinas Life Assurance Company Inc. and Generali Pilipinas Insurance Company Inc. The year 2005 marked the 6th year of operation for the Philippines companies.

In the year 2002, the Group through Generali Asia N.V., acquired Pornpat Insurance Co. Ltd and Pornpat Life Assurance Co. Ltd. in Thailand which were subsequently renamed as Generali Insurance (Thailand) Co. Ltd. and Generali Life Assurance (Thailand) Co. Ltd. For Generali Thailand, the year 2005 marked its 3rd year of operation.

Today, both the companies in Philippines and Thailand offer life, general, group life and other insurance products.

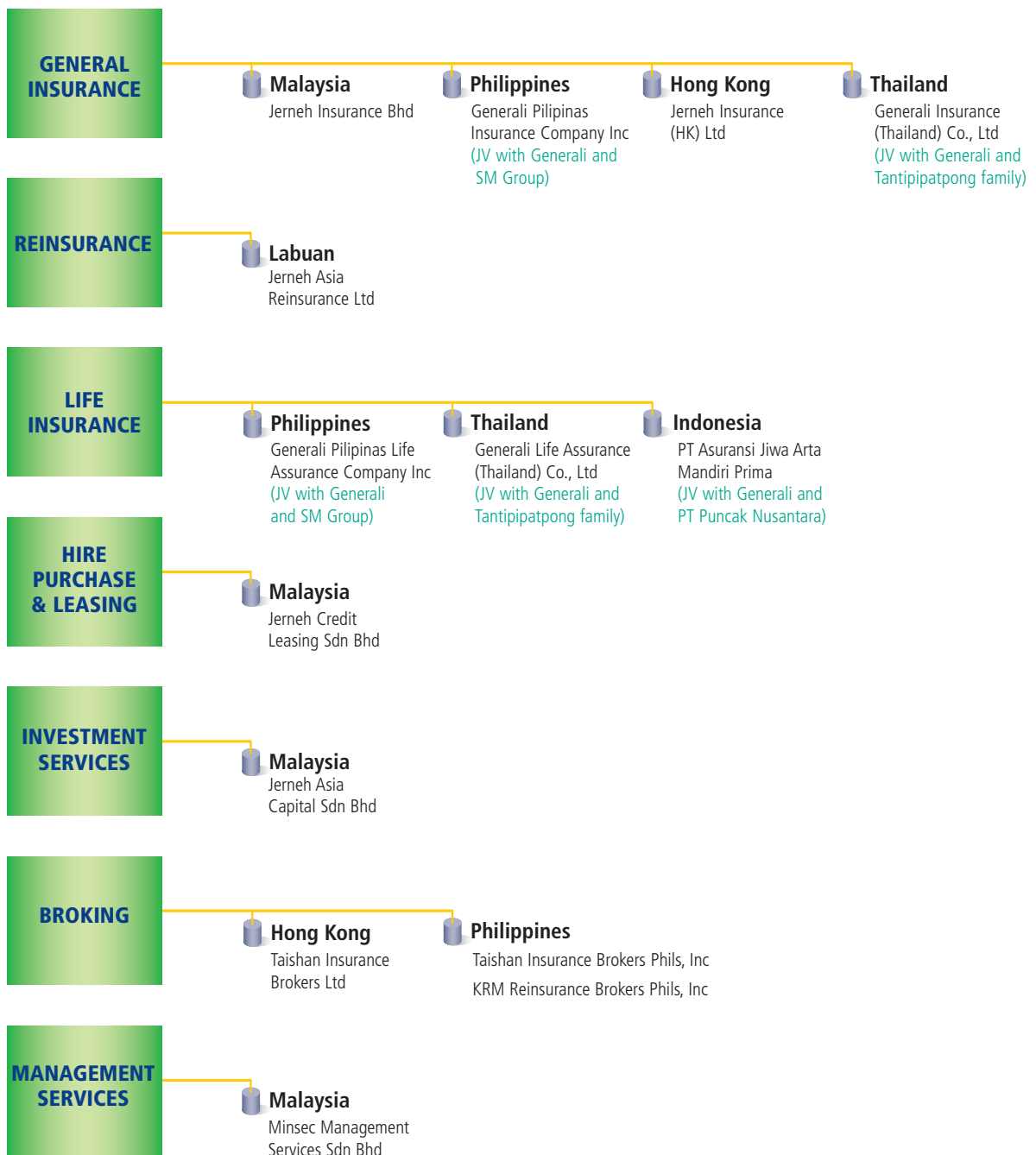
In March 2006, Generali Asia N.V acquired PT Asuransi Jiwa Arta Mandiri Prima, a life insurance company in Indonesia. Generali Asia will be looking to form a strategic partnership with a bank in due course. The company is expected to commence operation in 2007.

The Group will continue to focus on its strategy of taking a long term approach to investments in insurance operations with Generali.

### PARTNERSHIP WITH HSBC

on 2nd March 2006, BNM awarded a Takaful licence to the consortium of HSBC Insurance (Asia Pacific) Holdings Limited, JAB and the Employees Provident Fund Board. The new company named HSBC Amanah Takaful (Malaysia) Sdn Bhd is expected to begin operation in the second half of 2006.

HSBC Amanah Takaful (Malaysia) Sdn Bhd will offer family takaful which provides a combination of long term savings and protection for participants and their dependents arising from death, disability or survival as well as general takaful which focuses on short-term protection of properties and liabilities against any loss or damage.



The Board of Directors of Jerneh Asia Berhad ("JAB") is committed to ensuring that the highest standards of corporate governance are practiced throughout the Group as a fundamental part of discharging their fiduciary responsibilities to protect and enhance shareholders' value and the financial performance of JAB Group.

### COMPLIANCE STATEMENT

To this end, the Board adopted the recommendations of the Malaysian Code on Corporate Governance (the "Code") and has taken steps to comply with all the Best Practices as outlined in the Code, with the exception of the establishment of a Nominating Committee. As JAB is mainly involved in the underwriting of general insurance business and in view of its size, the Board is of the opinion that there is currently no necessity for the establishment of a Nominating Committee. Rather, the Board has always assumed the role of reviewing the performance of its members as well as identifying new appointment of Directors to the Board whenever the need arises.

### PRINCIPLES STATEMENT

The following statement sets out how the Company has applied the principles in Part 1 of the Code. The principles are dealt with under the following headings :-

- (A) Board of Directors;
- (B) Directors' Remuneration;
- (C) Shareholders' Relation and Communication; and
- (D) Accountability and Audit.

### BOARD OF DIRECTORS

#### Board Responsibilities

The Board of Directors of JAB takes full responsibility for the performance of the Group. The Board provides the Company with the stewardship of its direction and operations, and ultimately the enhancement of long-term shareholder's value. In carrying out this responsibility, the Board is empowered to decide on all matters relating to the Company's business and to delegate these powers accordingly. Where appropriate, it has set up Committees, all of which have terms of reference to govern their responsibilities. All Board Committees report to the Board.

#### Board Balance

At the date of this statement, the Board has seven (7) members comprising one (1) Managing Director, one (1) Executive Director, three (3) Non-Independent Non-Executive Directors (including the Chairman) and two (2) Independent Non-Executive Directors. This composition of Board of Directors has complied with the Listing Requirements of Bursa Malaysia Securities Berhad which requires a minimum of one-third (1/3) of the total number of Directors to be Independent. A brief profile of each Director is presented on pages 6 to 9 of this Annual Report.

The roles of the Chairman, the Managing Director and the Executive Director are segregated to ensure that there is a balance of power and authority. The Chairman heads and leads discussions on policy establishment and decision making whilst the Managing Director and Executive Director are responsible for the implementation of policies and decisions of the Board, overseeing as well as coordinating the development and implementation of business and corporate strategies.

The Non-Executive Directors participate actively in areas such as policy and strategy, performance monitoring, allocation of resources as well as improving governance and control.

**BOARD OF DIRECTORS (cont'd)**

**Board Balance (cont'd)**

The concept of independence adopted by the Board is in tandem with the definition of an Independent Director in Section 1.01 of the Listing Requirements of Bursa Malaysia Securities Berhad. The presence of the Independent Non-Executive Directors bring to bear objective and independent judgement to the decision making of the Board and provide a capable check and balance for the Managing Director and Executive Director. They also ensure that major proposals by Management are fully deliberated and examined, with due regard to risk management, taking into account the overall interests of shareholders and other stakeholders including employees, customers, suppliers and the communities in which the Group conducts its business. The Independent Non-Executive Directors provide unbiased and independent views to safeguard the interests of the minority shareholders.

To this end, the Board has appointed YM Raja Dato' Seri Abdul Aziz bin Raja Salim as the Senior Independent Non-Executive Director of the Board to whom concerns of the Group may be conveyed.

**Board Meetings**

The Board of Directors holds at least five (5) regular scheduled meetings annually, with additional meetings convened when urgent and important decisions need to be considered between the scheduled meetings.

During the financial year ended 31st December 2005, the Board met on five (5) occasions; where it deliberated upon and considered a variety of matters including the Group's financial results, major investments and strategic decisions, business plan and future direction of the Group.

The Board members are supplied with all necessary information prior to and in advance of each Board Meeting to enable them to effectively discharge their responsibilities.

All proceedings of the Board Meetings are duly minuted and signed by the Chairman of the Meeting. Record of Directors' attendance at Board Meetings held in the financial year ended 31st December 2005 is as follows :-

Directors	Attended
Dato' Lim Chee Wah	5 of 5 meetings held
Tan Yew Jin	5 of 5 meetings held
Tam Chiew Lin	5 of 5 meetings held
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	4 of 5 meetings held
Ahmad Riza bin Basir	3 of 5 meetings held
Anwarudin bin Hj Abdul Rahman	4 of 5 meetings held
Graham Hecmond Wong	5 of 5 meetings held
Dato' Seri Ismail Farouk bin Abdullah *	3 of 5 meetings held

\* resigned with effect from 29th November 2005

**Supply of Information**

Board papers are issued prior to a Board Meeting to enable the Directors to review and consider the agenda items to be discussed at the Board Meeting and where necessary, to obtain further explanations in order to be fully briefed before the Meeting. The Board papers include reports relevant to the issues of the meetings covering the areas of strategic, financial, operational and regulatory compliance matters.

In addition, there is a schedule of matters reserved specifically for the Board's decision, including the approval of annual business plan and budgets, the overall Group strategy and direction, major acquisitions or disposals of business or assets of a substantial value, major investments and financial decisions and approval of all corporate announcements, including the announcement of the quarterly financial results, prior to releasing to the Bursa Malaysia Securities Berhad.

## **BOARD OF DIRECTORS (cont'd)**

### **Supply of Information (cont'd)**

In exercising their duties, the Directors have access to all information within the Company and to the advice and services of the Company Secretary. If necessary, the Directors are entitled to seek independent professional advice from external consultants at the Company's expense.

### **Re-Election**

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment. The Articles also provide that at least one-third or the number nearest to one-third of the remaining Directors be subject to re-election by rotation at each Annual General Meeting provided always that all Directors shall retire from office at least once every three (3) years but shall be eligible for re-election.

Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

### **Directors' Training**

All the Directors have completed the 'Mandatory Accreditation Programme' prescribed by Bursa Malaysia Securities Berhad. The Directors also continually attend education programmes and seminars to keep abreast with developments in the market place, such as seminars accredited under Bursa Malaysia Securities Berhad's Continuing Education Programme ("CEP").

The Company also organizes in-house training programmes, facilitated by industry experts, for Directors of listed companies in the Group and senior management. Some of these training programmes are accredited under Bursa Malaysia Securities Berhad's CEP.

### **Appointments to the Board**

The Board is constantly reviewing the performance of its existing Directors as well as identifying and appointing new Directors to the Board whenever the need arises. The Board itself functions as a Nominating Committee.

### **Board Committees**

The Board of Directors delegates certain responsibilities to the following Board Committees, namely :-

- (a) Audit Committee
- (b) Management Committee
- (c) Investment Committee
- (d) Remuneration Committee
- (e) Option Committee.

The duties and responsibilities of each committee are established and controlled by the Board of Directors. All committees have written terms of reference and operating procedures, and the Board receives minutes or reports of their proceedings and deliberations.

The Chairmen of the various committees will report to the Board the outcome of the committee meetings and such reports form part of the proceedings of the Board Meeting. Where necessary, the Board's ratification is sought for pertinent decisions made by the above committees.

### **Audit Committee**

For details on the Audit Committee, please refer to the Audit Committee Report set out on pages 29 to 32.

#### BOARD OF DIRECTORS (cont'd)

##### Management Committee

The members of the Management Committee during the year were :-

- Mr Tan Yew Jin (Chairman)
- Ms Tam Chiew Lin
- Encik Ahmad Riza bin Basir.

This Committee was established on 21st January 1998. Apart from Encik Ahmad Riza bin Basir, all the other members of the Management Committee are executive Directors.

This Committee is responsible for interpreting the policies set by the Board of Directors and ensuring that such policies are being carried out by Management. It also reviews from time to time the effectiveness of existing policies and if need be, recommends new policy guidelines to the Board for approval.

During the financial year ended 31st December 2005, this Committee had five (5) meetings which were attended by majority of its members together with the Senior Management of the Group.

Besides obtaining updates on operational and financial reviews, the meetings also act as a forum for discussion on internal control issues and problems faced by the operating units. Critical issues are highlighted for timely resolution and where necessary, brought to the Board for further direction.

##### Investment Committee

The members of the Investment Committee during the year were :-

- Dato' Lim Chee Wah (Chairman)
- Mr Tan Yew Jin
- Ms Tam Chiew Lin
- Encik Ahmad Riza bin Basir.

This Committee was established on 11th May 2001 and is primarily responsible for the general direction for the management of the Group's investment funds to ensure that the following broad objectives are met :-

- (1) To preserve capital employed;
- (2) To generate a regular income stream;
- (3) To achieve consistent capital appreciation; and
- (4) Where appropriate, to develop reciprocal business support.

During the financial year ended 31st December 2005, this Committee had nine (9) meetings which were attended by majority of its members as well as the Investment Manager of Jerneh Insurance Berhad.

##### Remuneration Committee

The members of the Remuneration Committee during the year were :-

- Encik Anwarudin bin Hj Abdul Rahman (Chairman) (*appointed on 25th November 2005*)
- Ms Tam Chiew Lin
- Mr Graham Hecmond Wong
- Dato' Seri Ismail Farouk bin Abdullah (*resigned on 25th November 2005*)

This Committee comprising mainly Non-Executive Directors was established on 11th May 2001.

This Committee is responsible for reviewing the personnel policies of the Group and recommending to the Board the remuneration framework for Executive Directors as well as the Senior Management personnel of the Company and its major subsidiary companies.

**BOARD OF DIRECTORS (cont'd)****Option Committee**

The members of the Option Committee during the year were :-

- Mr Tan Yew Jin (Chairman)
- Ms Tam Chiew Lin
- Encik Anwarudin bin Hj Abdul Rahman.

This Committee was established on 19th November 1998 and is responsible for administering the JAB Employee Share Option Scheme in accordance with the Company's By-Laws.

**DIRECTORS' REMUNERATION****Remuneration Policy**

The remuneration of Directors is determined at levels that enable the Company to attract and retain Directors with the relevant experience and expertise needed to assist in managing the Group effectively. The level of remuneration of Non-Executive Directors reflects the experience and level of responsibility undertaken by them.

**Remuneration Procedure**

The Remuneration Committee reviews and recommends to the Board the terms of employment of and all elements of the remuneration of the Managing Director, Executive Director and Senior Management personnel of the Company and its major subsidiaries. The Remuneration Committee also recommends the annual bonus and salary increment of the Managing Director, Executive Director and Senior Management personnel. The Board, as a whole is responsible for the determination of the remuneration of the Managing Director and Executive Director. The Managing Director and Executive Director do not participate in decisions regarding their remuneration.

The determination of the remuneration of Non-Executive Directors is a matter for the Board as a whole, subject to approval of shareholders at the Annual General Meeting.

During the financial year ended 31st December 2005, the Remuneration Committee met on two (2) occasions and the meetings were attended by all the members.

**Details of the Remuneration Package**

The aggregate Directors' remuneration paid or payable or otherwise made available to all Directors of the Company who served during the financial year are as follows :-

	Fees RM'000	Benefits- In-Kind RM'000	Other Emoluments RM'000	Total RM'000
Executive Directors	-	12	818	830
Non-Executive Directors	192	-	-	192

The number of Directors of the Company who served during the financial year and whose income from the Group falling within the following bands are :-

	Executive Directors	Non-Executive Directors
Less than RM70,000	-	6
RM70,001 to RM600,000	2	-

### SHAREHOLDERS' RELATION

The Board believes that shareholders should be kept informed of all material business developments of the Company. In addition to the various announcements made during the year, release of financial results on a quarterly basis provides shareholders with an overview of the Group's performance and operations. The Jerneh web-site [www.jerneh.com.my](http://www.jerneh.com.my) provides up-to-date information on the Group's products and operations.

Any queries, concerns and/or feedback regarding the Group may be conveyed to :-

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1. **YM Raja Dato' Seri Abdul Aziz bin Raja Salim**

Senior Independent Non-Executive Director

Telephone Number : 03 - 2145 0485

Facsimile Number : 03 - 2143 2817

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2. **Ms Choy Chiew Ling**

Company Secretary

Telephone Number : 03 - 2141 4255

Facsimile Number : 03 - 2142 1677

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The Annual General Meeting is the principal forum for dialogue and interaction with shareholders wherein shareholders are given opportunities to raise questions pertaining to the business activities and direction of the Group. Members of the Board as well as the Auditors of the Company are present to answer questions raised at the meeting.

For re-election of Directors, the Board will ensure that the requisite information on Directors who are standing for re-election is disclosed in the statement accompanying the notice of meeting.

Each item of special business included in the notice of the meeting will be accompanied by an explanatory statement on the effects of the proposed resolution.

### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

In presenting the annual financial statements, quarterly and half-yearly announcement of results to shareholders, the Directors take responsibility to present a balance and fair assessment of the Group's position and prospects. The Audit Committee assists in reviewing the information disclosed to ensure accuracy and adequacy.

A statement by the Directors of their responsibilities in preparing the financial statements is set out on page 25 of this Annual Report.

#### Relationship with the Auditors

The role of the Audit Committee in relation to the external Auditors is described on pages 29 to 32 of this Annual Report. The Company has always maintained a close and transparent relationship with its Auditors in seeking their professional advice towards ensuring compliance with the relevant accounting standards.

## RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In preparing the annual financial statements of the Group and of the Company, the Directors are collectively responsible to ensure that these financial statements have been prepared to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and the results and cash flows of the Group and the Company in accordance with the applicable approved accounting standards in Malaysia, the provisions of the Companies Act, 1965 and the Listing Requirements of the Bursa Malaysia Securities Berhad.

In preparing the financial statements for the year ended 31st December 2005 set out on pages 34 to 83 of this Annual Report, the Directors have applied appropriate accounting policies on a consistent basis and made judgements and estimates that are reasonable and prudent.

The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy, the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This Statement is made in accordance with a resolution of the Board of Directors dated 13th April 2006.

## **ADDITIONAL COMPLIANCE INFORMATION**

as at 31st December 2005

### **Share Buy-backs**

During the financial year, there were no share buy-backs by the Company.

### **Options, Warrants or Convertible Securities**

Apart from a total of 413,000 options exercised by the employees of the Company, there were no other warrants or convertible securities exercised by the Company during the financial year ended 31st December 2005.

### **American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme**

During the financial year, the Company did not sponsor any ADR or GDR programme.

### **Imposition of Sanctions and/or Penalties**

There were no sanctions and/or penalties imposed on the Company and/or its subsidiaries, Directors or Management by the relevant regulatory bodies.

### **Non-Audit Fees**

During the year under review, the Company did not pay any non-audit fees to the Auditors of the Company.

### **Variation in Results**

There were no material variations between the audited results for the financial year ended 31st December 2005 and the unaudited results for the financial quarter ended 31st December 2005 of the Group.

### **Profit Guarantee**

During the year, there were no profit guarantees given by the Company.

### **Material Contracts**

There were no material contracts entered into by the Company and/or its subsidiaries involving Directors' and major shareholders' interests which were still subsisting as at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

### **Revaluation Policy on Landed Properties**

The Company does not have a revaluation policy on landed properties.

**Recurrent Related Party Transactions**

The recurrent related party transactions of a revenue or trading nature entered into by the Group during the twelve (12) months from 1st January 2005 to 31st December 2005 pursuant to the Shareholders' Mandate granted at the Annual General Meeting of the Company held on 25th May 2005 were as follows:-

**12 months from  
01.01.2005 to 31.12.2005**

Nature of Transaction / Name of Transacting Company	Shareholders' Mandate RM'000	Transacted Value RM'000	Relationship with Director/ Major Shareholder
Underwriting of General Insurance business by Jerneh Insurance Berhad ("JIB"), a 80%-subsidiary company of Jerneh Asia Berhad ("JAB") from:-			
1. KBSB Group	17,200	4,870	Kuok Brothers Sdn Bhd ("KBSB") is a major shareholder of JAB, the holding company of JIB.
2. PPB Group	20,250	4,340	PPB Group Berhad ("PPB") is a body corporate associated to KBSB, a major shareholder of JAB.
3. PPBOP Group	4,500	2,830	PPB Oil Palms Berhad ("PPBOP") is a body corporate associated to KBSB, a major shareholder of JAB.
4.1 BHR Enterprise Sdn Bhd	300	260	Body corporates which are associated to Encik Ahmad Riza bin Basir, a Director of JAB.
4.2 Fima Corporation Bhd			
4.3 Percetakan Keselamatan Nasional Sdn Bhd			
4.4 Kumpulan Fima Bhd			
4.5 Malaysian Transnational Trading (MATTRA) Corporation Berhad			
5. PCB Group	1,100	716	Paramount Corporation Berhad is a body corporate associated to Dr Teo Chiang Quan, a Director of JIB.
Provision of Hire-Purchase and Leasing facilities by Jerneh Credit Leasing Sdn Bhd to PPB Group.	15,000	2,470	PPB is a body corporate associated to KBSB, a major shareholder of JAB.

## STATEMENT OF INTERNAL CONTROL

The Board is committed to maintain a sound system of internal control in the Group and is pleased to provide the following statement, which has been prepared in accordance with the Statement on Internal Control : Guidance for Directors of Public Listed Companies issued by the Institute of Internal Auditors in Malaysia and adopted by Bursa Malaysia Securities Berhad.

### BOARD RESPONSIBILITY

The Board is ultimately responsible for the Group's system of internal control and its effectiveness to safeguard shareholders' investment and the Group's assets. Such a system includes the establishment of an appropriate control environment and framework as well as processes for reviewing its adequacy and integrity. The control environment means the overall attitude, awareness and actions of Directors and Management regarding the internal control system and its importance in the respective companies.

In view of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives of the Group. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, risk management and financial, organisational, operational and compliance controls.

The Board confirms that there is an ongoing process, for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board and accords with the guidelines for directors on internal control under the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

### THE KEY ELEMENTS OF THE GROUP'S INTERNAL CONTROL ARE DESCRIBED BELOW :-

- The Board maintains an organisation structure with clearly defined authorities and responsibilities and appropriate reporting procedures of the Board, Committee and Management of the Group. The Group consists of several companies, each of which has its own management and internal control structures. Operating management of each business unit bears responsibility for the identification and mitigation of major business risks and each maintains controls and procedures appropriate to its own business environment.
- Detailed budgeting process requiring all business units to prepare budgets annually which are reviewed by the Board. Monthly management reports are drawn up for the review of the Managing Director and Executive Director. Results are monitored against budget, with major variances being followed up.
- The Board meets 5 times a year and has a formal agenda to discuss amongst other things, appropriate policies on internal control over strategic, financial, operational and compliance issues and to seek assurance that the system of internal control is functioning adequately and that its integrity is maintained. The Chairman together with the Managing Director and Executive Director, leads the presentation of the policies on internal control and provide comprehensive explanation of pertinent issues.
- The Audit Committee, together with the Internal Audit and Senior Management, reviews the effectiveness of the internal financial and operating control environment of the Group. The Audit Committee holds regular meetings and reviews reports from internal and external auditors covering such matters. Where areas of improvement in the system are recommended, the Board considers the recommendations made by the Audit Committee and Management.

### INTERNAL CONTROL THAT RESULTS IN MATERIAL LOSSES

There were no material losses incurred during the financial year under review as a result of weaknesses in internal control. Management is continuously assessing and taking measures to strengthen the control environment of the Group.

This statement is made in accordance with the resolution of the Board of Directors dated 13th April 2006.

### COMPOSITION

The Audit Committee was appointed by the Board of Directors from amongst the Directors of the Company and comprises not less than three (3) members, the majority of whom are Independent Directors. The Chairman of the Committee is an Independent Director.

### MEMBERS OF THE COMMITTEE

The Members of the Committee for the financial year ended 31st December 2005 comprises the following Directors :-

- YM Raja Dato' Seri Abdul Aziz bin Raja Salim  
~ *Chairman, Independent Non-Executive Director*  
~ *A member of the Malaysian Institute of Accountants*
- Mr Tan Yew Jin  
~ *Executive Director*  
~ *A member of the Malaysian Institute of Accountants*
- Encik Anwarudin bin Haji Abdul Rahman  
~ *Independent Non-Executive Director*

### SECRETARY

The Secretary to the Audit Committee is the Company Secretary of the Company.

### TERMS OF REFERENCE

The Committee was established on 10th July 1996 and its terms of reference are set out below :-

#### Authority

The Audit Committee shall :-

1. have explicit authority to investigate any matter within its terms of reference;
2. have the resources which are required to perform its duties;
3. have full and unrestricted access to any information pertaining to the Company/Group;
4. have direct communication channels with the external and internal auditors;
5. be able to obtain independent professional or other advice;
6. be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, where deemed necessary ; and
7. refer any fraud or irregularities discovered by Management to the Internal Audit Department ("IAD") for investigation and all findings shall be reported to the Audit Committee.

#### Duties

The duties of the Audit Committee are to :-

1. approve the internal audit charter which defines its :-
  - (i) independent purpose
  - (ii) authority
  - (iii) scope and responsibility of the internal audit functions of the Company/Group.
2. ensure that the IAD has adequate and competent resources to cover their scope and other audit projects.

**TERMS OF REFERENCE (cont'd)**

**Duties (cont'd)**

3. ensure that the goals and objectives of the IAD are in line with corporate goals.
4. approve the appointment or termination, review of performance, remuneration of Head and senior staff of IAD.
5. review with the IAD the annual audit plan. The plan should detail out the audit activities for the year and allocation of resources to the tasks. It will indicate the scope of work and prioritise audit assignments using Risk Management and System Audit approaches.
6. review the scope and results of internal audit procedures including :-
  - (i) compliance with internal auditing standards, company policies relating to compliance with laws and regulatory requirements.
  - (ii) the effective operation of the system of internal controls, in particular financial controls, underwriting controls and claims controls.
  - (iii) independent and reporting relationships.
  - (iv) professionalism and capacity of the internal auditors.
  - (v) restrictions placed on internal auditors by management.
  - (vi) the internal audit programme or processes; major findings of internal audit programme or processes; or investigations undertaken; and whether or not appropriate action (including management response) is taken on the recommendations of the internal audit function.
  - (vii) coordination between internal and external auditors.
7. be informed of resignation of internal audit staff and provide the resigning staff an opportunity to submit his reasons for resigning.
8. consider and recommend the appointment of external auditors after evaluating their performance, the remuneration and any questions of resignation or dismissal.
9. discuss audit report qualifications, problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss, in the absence of management where necessary.
10. review the following and report the same to the Board of Directors of the Company :-
  - (i) with the external auditors, the annual audit plan, its Budget, scope and nature of audit of the Company/Group and the audit report.
  - (ii) with the external auditors on the evaluation of the system of internal controls.
  - (iii) the Company's and Group's quarterly results and year end financial statements, focusing particularly on :-
    - > significant changes and adjustments in the presentation of financial statements.
    - > changes in or implementation of major accounting policies and principles.
    - > the going concern assumption.
    - > compliance with accounting standards and other legal requirements.
    - > significant adjustments resulting from the audit.
    - > material fluctuations in Statement of Balances.
    - > significant and unusual events.
    - > significant variations in audit scope.
    - > significant commitments and contingent liabilities.
  - (iv) Chairman's Statement, interim financial reports and preliminary announcements.

## TERMS OF REFERENCE (cont'd)

### Duties (cont'd)

- (v) any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity which come to light in the course of internal audit or as reported by management.
  - (vi) effectiveness of the internal control systems and in particular, to review the external auditor's management letter and management's response.
11. ensure prompt publication of annual accounts of the Company and the Board of Directors is duty bound to ensure that accounts are timely and accurate, with frequent reviews on adequacy of provisions against contingencies and bad and doubtful debts.

## MEETINGS AND MINUTES

For the financial year ended 31st December 2005, the Committee convened five (5) meetings, which were attended by all members. The meetings were structured through the use of appropriate agendas and reports, which were distributed to members with sufficient notification.

The Managing Director, Chief Executive Officer of its principal subsidiary, Internal Audit Manager and Finance Manager were present by invitation at all the meetings. Representatives of the Auditors, Moores Rowland also attended the meetings upon invitation.

In carrying out his duties, the Chairman of the Committee report to and update the Board on significant issues and concerns discussed during the Committee's meetings and where appropriate made the necessary recommendations to the Board. Minutes of the Committee's meetings were made available to all Board members.

## ACTIVITIES OF AUDIT COMMITTEE

The Committee carried out its duties in accordance with its terms of reference during the financial year.

The main activities undertaken by the Audit Committee were as follows :-

1. Reviewed the Auditors' scope of work and audit plans for the financial year 2005.
2. Reviewed with the Auditors the results of the audit, the audit report and the management letter, including management's response.
3. Consideration and recommendation to the Board for approval of the audit fees payable to the Auditors as disclosed in Note 25 to the financial statements.
4. Reviewed the independence and objectivity of the Auditors and services provided, including non-audit services.
5. Reviewed the internal audit reports, which highlighted the audit issues, recommendations and management's response.
6. Recommended to the Board improvement opportunities in internal control, procedures and risk management.
7. Reviewed the quarterly and audited financial statements of the Company prior to submission to the Board for their consideration and approval.
8. Reviewed the related party transactions entered into by the Group.
9. Reviewed the inspection and examination reports issued by the regulatory authorities such as Bank Negara Malaysia and the appropriate remedial actions taken in respect of any findings.

#### **INTERNAL AUDIT FUNCTION**

The Committee is assisted by the IAD of the Group in providing independent and objective reports on the state of internal controls of the various operating units within the Group and the extent of compliance of the operating units with established policies, procedures, regulations, guidelines and best practices from the various regulatory bodies.

During the financial year, audit assignments were carried out in line with the Audit Programme approved by the Committee on various operating units of the Group. Audit reports were issued incorporating findings and recommendations with regard to system and control weaknesses noted in the course of audit, the corresponding Management's responses and the remedial actions taken by Management. The IAD followed up on the implementation of all findings and recommendations in its review process.

**YM RAJA DATO' SERI ABDUL AZIZ BIN RAJA SALIM**

*Chairman*

*Independent Non-Executive Director*



## FINANCIAL STATEMENTS

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## DIRECTORS' REPORT

for the year ended 31st December 2005

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31st December 2005.

### PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. The principal activities of the subsidiary companies are indicated in explanatory note 5 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

### RESULTS

	Group RM'000	Company RM'000
Profit after taxation	19,757	14,047
Minority interest	(4,653)	-
Net profit for the year	15,104	14,047
Unappropriated profit brought forward	132,552	61,333
Profit available for appropriation	147,656	75,380
Dividends	(3,937)	(3,937)
Unappropriated profit carried forward	143,719	71,443

### DIVIDENDS

Since the end of the previous financial year, the Company paid a First and Final Dividend of 8% less tax at 28%, amounting to RM6,263,484 in respect of the financial year ended 31st December 2004.

The Directors now recommend a First and Final Dividend of 5% less tax at 28% amounting to RM3,916,872 in respect of the financial year under review.

### RESERVES AND PROVISIONS

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

### ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and paid-up share capital of the Company was increased from RM108,389,003 to RM108,802,003 by the issue of 413,000 new ordinary shares of RM1 each for cash under the Company's Employee Share Option Scheme.

The new ordinary shares rank pari passu in all respects with the existing ordinary shares.

The Company did not issue any debentures during the financial year under review.

### EMPLOYEE SHARE OPTION SCHEME ("ESOS")

Details of the ESOS of the Company are set out in explanatory note 20 to the financial statements.

For the offer of options under the ESOS, the Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of the option holders who have been granted options of less than 100,000 shares. The name of the option holder who has been granted options of 100,000 shares and above is set out below:

Name of Option Holder	Number of Share Options
Tam Chiew Lin	175,000

### DIRECTORS

The Directors in office since the date of the last report are:

Dato' Lim Chee Wah	(Chairman)
Tan Yew Jin	(Deputy Chairman & Executive Director)
Tam Chiew Lin	(Managing Director)
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	
Ahmad Riza bin Basir	
Anwarudin bin Hj Abdul Rahman	
Graham Hecmond Wong	
Dato' Seri Ismail Farouk bin Abdullah	(Resigned on 29th November 2005)

In accordance with Article 101 of the Company's Articles of Association, Ahmad Riza bin Basir and Graham Hecmond Wong retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

### DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

According to the register required to be kept under Section 134 of the Companies Act 1965, the interests of Directors who held office at the end of the financial year in shares in the Company are as follows:

Name of Director	Ordinary shares of RM1 each			
	At 1.1.2005	Bought	Sold	At 31.12.2005
<b>Dato' Lim Chee Wah</b>				
- direct	30,000	-	-	30,000
<b>Tan Yew Jin</b>				
- direct	120,000	-	-	120,000
- indirect	155,250	-	-	155,250
<b>Tam Chiew Lin</b>				
- direct	10,000	-	-	10,000

**DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (cont'd)**

Name of Director	Ordinary shares of RM1 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
<b>YM Raja Dato' Seri Abdul Aziz bin Raja Salim</b>				
- direct	60,000	-	-	60,000
<b>Ahmad Riza bin Basir</b>				
- indirect	16,637,407	532,000	-	17,169,407
<b>Anwarudin bin Hj Abdul Rahman</b>				
- direct	37,500	2,500	-	40,000

By virtue of his interest in the shares of the Company, Ahmad Riza bin Basir is also deemed to be interested in the shares of all the subsidiaries of the Company to the extent that the Company has an interest. The Company's shareholdings in its subsidiaries during the financial year are as follows:

	Ordinary shares of RM1 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
Jerneh Insurance Berhad	80,000,000	-	-	80,000,000
Jerneh Credit Leasing Sdn Bhd	1,000,000	-	-	1,000,000
Jerneh Healthcare Services Sdn Bhd	250,000	-	-	250,000
Jerneh Asia Capital Sdn Bhd	2	-	-	2
Minsec Management Services Sdn Bhd	25,000	-	-	25,000

	Ordinary shares of HKD100 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
Jerneh Insurance (HK) Limited	500,000	-	-	500,000

	Ordinary shares of HKD1 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
Taishan Insurance Brokers Limited	1,000,000	-	-	1,000,000

	Ordinary shares of PHP100 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
KRM Reinsurance Brokers Phils., Inc.	480,000	-	-	480,000
Taishan Insurance Brokers Philippines, Inc.	480,000	-	-	480,000

**DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (cont'd)**

	Ordinary shares of USD1 each			At 31.12.2005
	At 1.1.2005	Bought	Sold	
Jerneh Asia Reinsurance Limited	3,200,000	-	-	3,200,000

The following Director who held office at the end of the financial year had interest in share options under the ESOS during the financial year as follows:

	Exercise price RM	No. of unissued shares of RM1 each under option				At 31.12.2005
		At 1.1.2005	Granted	Lapsed	Exercised	
Tam Chiew Lin	1.90	165,000	-	-	-	165,000

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the 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.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object is to enable 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.

**OTHER STATUTORY INFORMATION**

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain the action 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 that adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances:
- (i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts of the Group and of the Company inadequate to any substantial extent, or
  - (ii) which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading, or
  - (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

**OTHER STATUTORY INFORMATION (cont'd)**

- (c) At the date of this report, there does not exist:
- (i) any charge on the assets of the Company or its subsidiary companies which has arisen since the end of the financial year which secures the liabilities of any other person, or
  - (ii) any contingent liability of the Company or its subsidiary companies which has arisen since the end of the financial year other than those arising from contracts of insurance underwritten in the ordinary course of business by the subsidiary companies, namely, Jerneh Insurance Berhad, Jerneh Asia Reinsurance Limited and Jerneh Insurance (HK) Limited.
- (d) No contingent or other liability of the Company or its subsidiary companies has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Company or its subsidiary companies to meet their obligations as and when they fall due.
- (e) 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 which would render any amount stated in the respective financial statements misleading.
- (f) In the opinion of the Directors:
- (i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
  - (ii) 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 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.

**AUDITORS**

The auditors, Moores Rowland, have expressed their willingness to continue in office.

Signed on behalf of the Directors in accordance with a directors' resolution dated 13th April 2006

**DATO' LIM CHEE WAH**  
Director

**TAM CHIEW LIN**  
Director

Kuala Lumpur

## **REPORT OF THE AUDITORS**

to the members of Jerneh Asia Berhad (Incorporated in Malaysia)

We have audited the financial statements of the Group and of the Company set out on pages 40 to 83.

These financial statements are 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 auditing standards issued by the Malaysian Institute of Accountants. These 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 that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31st December 2005 and of their results and cash flows for the year ended on that date; and
  - (ii) the matters required by section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiaries of which we acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports of the subsidiary companies of which we have not acted as auditors, and which are indicated in explanatory note 5 to the financial statements.

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

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification, and in respect of subsidiary companies incorporated in Malaysia, did not include any comment made under section 174(3) of the Act.

**MOORES ROWLAND**  
No. AF: 0539  
Chartered Accountants

**TANG KIN KHEONG**  
No. 1501/9/07 (J/PH)  
Partner

Kuala Lumpur  
Date: 13th April 2006

## BALANCE SHEETS

as at 31st December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>ASSETS</b>					
Property, plant and equipment	3	13,421	13,822	162	250
Investment property	4	42,500	42,500	-	-
Investment in subsidiary companies	5	-	-	107,236	107,236
Amounts owing by subsidiary companies	6	-	-	78,339	52,520
Investment in associated company	7	25,283	27,693	46,470	46,470
Amount owing by associated company	8	15,703	5,998	16,860	5,998
Other investments	9	232,112	181,588	-	-
Deferred tax assets	10	4,806	4,663	-	-
Trade and other receivables	11	115,055	90,489	94	155
Current tax assets		6,396	6,663	2,833	3,880
Marketable securities	12	8,203	5,785	-	-
Deposits	13	246,569	251,193	4,080	9,364
Cash and bank balances	14	29,548	27,732	911	3,565
<b>Total assets</b>		<b>739,596</b>	<b>658,126</b>	<b>256,985</b>	<b>229,438</b>
<b>LIABILITIES</b>					
Provision for outstanding claims	15	188,583	170,221	-	-
Trade and other payables	16	88,123	74,492	820	850
Amount owing to associated company	8	17	-	-	-
Unearned premium reserves	17	93,696	80,450	-	-
Amounts owing to subsidiary companies	6	-	-	-	23
Bank borrowing (unsecured)	18	44,000	23,800	44,000	23,800
Deferred tax liabilities	19	1,521	2,660	1,495	2,660
Current tax liability		182	153	-	-
<b>Total liabilities</b>		<b>416,122</b>	<b>351,776</b>	<b>46,315</b>	<b>27,333</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	20	108,802	108,389	108,802	108,389
Share premium		26,508	26,140	26,508	26,140
Revaluation reserve		856	160	-	-
Exchange fluctuation reserve		4,052	623	-	-
Retained profits	21	143,719	132,552	71,443	61,333
Dividend		3,917	6,243	3,917	6,243
		287,854	274,107	210,670	202,105
<b>MINORITY INTEREST</b>		<b>35,620</b>	<b>32,243</b>	<b>-</b>	<b>-</b>
<b>Total liabilities, shareholders' equity and minority interest</b>		<b>739,596</b>	<b>658,126</b>	<b>256,985</b>	<b>229,438</b>

Accounting policies and explanatory notes are set out on pages 46 to 83

## INCOME STATEMENTS

for the year ended 31st December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Operating revenue	22	195,270	182,978	-	-
Operating costs applicable to operating revenue	23	(124,763)	(111,278)	-	-
		70,507	71,700	-	-
Other operating income	24	13,122	14,929	315	220
Operating expenses	25	(51,750)	(50,364)	(2,479)	(2,001)
Profit/(Loss) from operations		31,879	36,265	(2,164)	(1,781)
Investment income (net)	27	3,146	5,005	19,334	17,664
Share of results of associated company		(6,975)	(6,515)	-	-
Finance cost		(1,026)	(833)	(1,026)	(833)
Profit before taxation		27,024	33,922	16,144	15,050
Taxation					
- Group/Company	28	(7,193)	(7,742)	(2,097)	(2,768)
- Share of taxation of associated company		(74)	(174)	-	-
		(7,267)	(7,916)	(2,097)	(2,768)
Profit after taxation		19,757	26,006	14,047	12,282
Minority interest		(4,653)	(5,035)	-	-
Net profit for the year		15,104	20,971	14,047	12,282
Basic earnings per share (sen)	29	13.90	19.40		
Diluted earnings per share (sen)	29	13.87	19.32		
Dividend per share (net of tax) (sen)		3.6	5.8		

Accounting policies and explanatory notes are set out on pages 46 to 83

## STATEMENTS OF CHANGES IN EQUITY

for the year ended 31st December 2005

Group	Note	Non-distributable				Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Revaluation reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Dividend RM'000	
Balance at 1.1.2004		107,202	25,078	-	525	117,885	6,175	256,865
Surplus arising from								
revaluation of								
investment property		-	-	160	-	-	-	160
Currency translation								
difference		-	-	-	98	-	-	98
Net gain not recognised								
in income statement		-	-	160	98	-	-	258
Net profit for the year		-	-	-	-	20,971	-	20,971
Issue of shares pursuant								
to ESOS	20	1,187	1,062	-	-	-	-	2,249
Dividend paid	30	-	-	-	-	(61)	(6,175)	(6,236)
Dividend proposed	30	-	-	-	-	(6,243)	6,243	-
Balance at 31.12.2004		108,389	26,140	160	623	132,552	6,243	274,107
Surplus arising from								
revaluation of land and								
buildings held as								
property, plant								
and equipment		-	-	696	-	-	-	696
Currency translation								
difference		-	-	-	3,429	-	-	3,429
Net gain not recognised								
in income statement		-	-	696	3,429	-	-	4,125
Net profit for the year		-	-	-	-	15,104	-	15,104
Issue of shares pursuant								
to ESOS	20	413	368	-	-	-	-	781
Dividend paid	30	-	-	-	-	(20)	(6,243)	(6,263)
Dividend proposed	30	-	-	-	-	(3,917)	3,917	-
Balance at 31.12.2005		108,802	26,508	856	4,052	143,719	3,917	287,854

Accounting policies and explanatory notes are set out on pages 46 to 83

Statements of Changes in Equity  
for the year ended 31st December 2005 (cont'd)

Company	Note	Share capital RM'000	Non- distributable Share premium RM'000	Distributable		Total RM'000
				Retained profit RM'000	Dividend RM'000	
Balance at 1.1.2004		107,202	25,078	55,355	6,175	193,810
Net profit for the year		-	-	12,282	-	12,282
Issue of shares pursuant to ESOS	20	1,187	1,062	-	-	2,249
Dividend paid		-	-	(61)	(6,175)	(6,236)
Dividend proposed	30	-	-	(6,243)	6,243	-
Balance at 31.12.2004		108,389	26,140	61,333	6,243	202,105
Net profit for the year		-	-	14,047	-	14,047
Issue of shares pursuant to ESOS	20	413	368	-	-	781
Dividend paid	30	-	-	(20)	(6,243)	(6,263)
Dividend proposed	30	-	-	(3,917)	3,917	-
Balance at 31.12.2005		108,802	26,508	71,443	3,917	210,670

Accounting policies and explanatory notes are set out on pages 46 to 83

## CASH FLOW STATEMENTS

for the year ended 31st December 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	27,024	33,922	16,144	15,050
Adjustments for:				
(Accretion of discounts)/amortisation of premiums (net)	(289)	175	-	1
Allowance for diminution in value of other investments (net)	1,854	62	-	-
Allowance for doubtful debts (net)	(1,523)	3,441	-	-
Bad debts written off	176	160	-	28
Change in unearned premium reserves	13,306	11,158	-	-
Depreciation	3,534	3,114	94	115
Dividend income	(5,293)	(3,387)	(17,423)	(15,892)
Fair value through income statement of marketable securities	-	-	-	-
Gain on sale of other investments (net)	(8,678)	(14,011)	-	-
Interest expense	1,026	833	1,026	833
Interest income	(16,977)	(12,757)	(1,911)	(1,773)
Loss/(Gain) on disposal of property, plant and equipment (net)	574	(141)	-	-
Loss on foreign exchange - unrealised	246	-	29	-
Loss retained in associated company	6,975	6,515	-	-
Reversal of cost previously over-capitalised in property, plant and equipment	82	-	-	-
Write down of marketable securities to net realisable value	1,562	902	-	-
Net unrealised gain on marketable securities	(8)	(173)	-	-
Operating profit/(loss) before changes in working capital	23,591	29,813	(2,041)	(1,638)
Change in fixed deposits	57,933	(45,556)	-	-
Proceeds from sale of other investments	54,868	103,457	-	-
Purchase of other investments	(103,768)	(84,720)	-	-
Change in trade receivables	(21,023)	(9,755)	-	-
Change in other receivables	(1,988)	498	54	(67)
Change in marketable securities	(3,478)	(1,843)	-	-
Change in provision for outstanding claims	18,397	10,850	-	-
Change in trade payables	13,022	441	-	-
Change in other payables	1,479	(1,964)	8	(10)
Cash generated from/(used in) operations	39,033	1,221	(1,979)	(1,715)
Income tax refunded	123	-	123	-
Income tax paid	(7,274)	(5,169)	-	(77)
Interest received	14,206	10,138	-	-
Dividends received	3,464	2,546	-	-
Net cash generated from/(used in) operating activities	49,552	8,736	(1,856)	(1,792)

Accounting policies and explanatory notes are set out on pages 46 to 83

Cash Flow Statements  
for the year ended 31st December 2005 (cont'd)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Advances to associated company	(10,862)	(5,945)	(10,862)	(5,945)
Proceeds from sale of other investments	35,153	27,325	-	4,000
Proceeds from disposal of property, plant and equipment	246	174	-	-
Purchase of property, plant and equipment ( <i>Note 31</i> )	(3,299)	(4,902)	(6)	(7)
Purchase of other investments	(30,209)	(25,316)	-	-
Interest received	2,451	2,966	1,918	1,757
Dividends received	720	246	-	-
(Advances to)/Repayment from subsidiary companies	-	-	(10,763)	6,417
Net cash (used in)/generated from investing activities	(5,800)	(5,452)	(19,713)	6,222
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of shares	781	2,249	781	2,249
(Repayment to)/Advances from subsidiary companies	-	-	(23)	19
Advances from associated company	17	-	-	-
Drawdown of bank loan	20,200	800	20,200	800
Interest paid	(1,064)	(764)	(1,064)	(764)
Dividends paid to shareholders of the Company	(6,263)	(6,236)	(6,263)	(6,236)
Dividend paid to a minority shareholder of a subsidiary company	(2,160)	(2,000)	-	-
Net cash generated from/(used in) financing activities	11,511	(5,951)	13,631	(3,932)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	47,490	50,212	12,929	12,431
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	195	(55)	-	-
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	102,948	47,490	4,991	12,929
Represented by:				
Cash and bank balances	29,548	27,732	911	3,565
Deposits	73,400	19,758	4,080	9,364
	102,948	47,490	4,991	12,929

Accounting policies and explanatory notes are set out on pages 46 to 83

## ACCOUNTING POLICIES AND EXPLANATORY NOTES

for the year ended 31st December 2005

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements comply with applicable approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB") and with the provisions of the Companies Act, 1965. Further, the financial statements of a subsidiary company, namely, Jerneh Insurance Berhad which have been consolidated with the Company's financial statements also comply with the provisions of the Insurance Act, 1996 and circulars/guidelines issued by Bank Negara Malaysia.

The measurement bases applied in the preparation of the financial statements include cost, lower of cost and market value, recoverable value and revalued amount as disclosed in the relevant notes. Estimates are used in measuring these values.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies made up to the end of the financial year. All inter-company transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. All subsidiary companies are consolidated on the acquisition method of accounting except for Jerneh Insurance Berhad which is consolidated on the merger method of accounting in accordance with the provisions of *Malaysian Accounting Standard No. 2*. The Group has chosen to adopt the provisions of Financial Reporting Standard ("FRS") 122 - Business Combinations prospectively, as permitted under the transitional provisions of *FRS 122*. Accordingly, the effects of the merger method of accounting under *Malaysian Accounting Standard No. 2* have been retained.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements.

The difference, if any, between the acquisition cost and these fair values is reflected as goodwill or discount on acquisition as appropriate. However, if the amounts involved are immaterial, goodwill or discount on acquisition is taken to the income statement as and when they arise.

Where goodwill is considered to be capable of generating future economic benefits, it is capitalised in the financial statements and amortised on the straight line basis over its estimated useful life or 25 years, whichever is shorter, otherwise it is written off in the income statement in the year of acquisition.

Discount on acquisition is retained in the balance sheet and credited to the income statement over a suitable period decided in relation to the particular circumstances which gave rise to it.

Under the merger method of accounting in accordance with *Malaysian Accounting Standard No. 2*, the results of subsidiary companies are accounted for on a full year basis irrespective of the date of merger. The difference between the nominal value of the shares issued plus any cash paid as consideration for the merger and the nominal value of the share capital of the subsidiary companies acquired is reflected as merger reserve.

Minority interest represents the interests of outside members in the operating results and net assets of subsidiary companies.

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(c) Subsidiary companies**

A subsidiary company is a company controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The Group's interests in subsidiary companies are stated at cost less impairment losses. Impairment losses are charged to the income statement.

On disposal, the difference between the net disposal proceeds and the carrying amount of the subsidiary disposed of is taken to the income statement.

**(d) Associated companies**

The Group treats as associated companies those companies in which the Group holds a long term equity interests, has representation on the board of directors and is in a position to exercise significant influence over financial and operating policies.

Investments in associated companies are stated at cost less impairment losses. Impairment losses are charged to the income statement.

On disposal, the difference between net disposal proceeds and the carrying amount of the associated company disposed of is taken to the income statement.

Investments in associated companies are accounted for in the consolidated financial statements by the equity method of accounting. The equity method of accounting involves recognising in the consolidated financial statements the Group's share of the results of associated companies for the financial year. The Group's investments in associated companies are carried in the consolidated balance sheet at an amount that reflects its share of net assets of the associated company and includes premium or discount on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company diminishes by virtue of losses to zero, unless the Group has incurred or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence in impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies with the Group.

The results and reserves of associated companies are accounted for in the consolidated income statement based on audited financial statements made up to the end of the financial year.

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(e) Investment properties**

Investment properties are properties held for their investment potential and rental income.

Investment properties, which are not subject to depreciation, are initially stated at cost and subsequently at directors' valuations based on independent professional valuation reports. Investment properties are appraised by independent professional valuers at least once in every three years on the open market value basis. Revaluation surpluses, if considered by the directors to be permanent in nature, are incorporated in the financial statements through the revaluation reserve account. Any reduction in the value of an investment property that reduces the previous revaluation surplus of the same asset is charged against the revaluation reserve and any decrease below its original cost is charged against operating profit in the income statement.

**(f) Property, plant and equipment**

*(i) Measurement basis*

Land and buildings were previously stated at cost. In accordance with the Insurance Regulations, 1996, the land and buildings of Jerneh Insurance Berhad are required to be revalued once in every 10 years, or at shorter intervals whenever the fair values are expected to differ materially from their carrying values. The land and buildings are first revalued in 2005 and stated at revalued amounts less accumulated depreciation and impairment losses.

Surplus arising on revaluation are credited to revaluation reserve. Any deficit arising from subsequent revaluations is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, the deficit is charged to the income statement. On disposal of a revalued asset, the amount in the revaluation reserve relating to the asset is transferred to unappropriated profit.

Other property, plant and equipment including land and buildings other than those belonging to Jerneh Insurance Berhad are stated at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

*(ii) Depreciation*

Depreciation is calculated to write off the cost of property, plant and equipment on the straight line basis over their estimated useful lives. The principal annual rates used for this purpose are:

Buildings	2%
Computers	20% - 33 1/3%
Office equipment, furniture and fittings	10% - 15%
Motor vehicles	20%
Renovations	10% - 33 1/3%

**(g) Impairment of assets**

An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are charged to the income statement.

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(g) Impairment of assets (cont'd)**

Property, plant and equipment, investment properties, investments in subsidiary and associated companies and goodwill on acquisition are assessed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's estimated net selling price and its discounted future cash flows expected to be generated from the use of the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Any reversal of an impairment loss as a result of a subsequent increase in recoverable amount should not exceed the carrying amount that would have been determined (net of amortisation or depreciation, if applicable) had no impairment loss been previously recognised for the asset.

**(h) Other investments**

Investment in government securities, treasury bills, government guaranteed loans, bonds and loan stocks which are intended to be held to maturity are stated at cost adjusted for the amortisation of premiums or accretion of discounts calculated on a straight line basis over the period from acquisition to maturity. The amortisation of premiums and accretion of discounts are recognised in the income statement.

Quoted investments are stated at the lower of cost and market value determined on an aggregate basis by category of investments except that if any decline in value of a particular investment is regarded as other than temporary, an allowance for diminution in value is made against the value of that investment. The allowance for diminution in value is charged to the income statement.

Unquoted equity investments are stated at cost less allowance for diminution in value.

**(i) Marketable securities**

Marketable securities comprising quoted securities are stated at the lower of cost and market value, determined on an aggregate basis by category of investment in the case of Jerneh Asia Capital Sdn Bhd and are stated at fair value in the case of Jerneh Insurance (HK) Limited. The financial effects of the difference in the accounting policies of these two subsidiary companies are not considered material and therefore no adjustment is made to align the policies. Changes in the carrying amount of the securities are recognised in the income statement. On disposal, the difference between the net sales proceeds and the carrying amounts is taken to the income statement.

**(j) Share capital**

Ordinary shares are recorded at the nominal value and proceeds received 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. Costs incurred directly attributable to the issuance of the shares are accounted for as a deduction from share premium, if any, otherwise it is charged to the income statement.

Dividends to shareholders are recognised as a reduction of equity in the period in which they are paid.

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(k) General insurance underwriting results**

General insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premium reserves and claims incurred.

*(i) 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.

*(ii) Unearned premium reserves ("UPR")*

Premiums are considered earned after accounting for reinsurance outwards and UPR. UPR is computed based on the following methods:

	Jerneh Insurance Berhad	Jerneh Asia Reinsurance Limited	Jerneh Insurance (HK) Limited
All direct business	1/24th method (other than transit business)	40% method	1/24th method
Direct and facultative transit business	25% method	40% method	1/24th method
Inward treaty business	1/24th method	40% method	1/8th or 1/4th method
Overseas inward facultative business	1/8th method	40% method	1/24th method

*(iii) Provision for claims*

Provision 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. For inward treaty business, the IBNR provision is based on submissions by treaty parties. For direct and facultative business, the IBNR provision is based on actuarial valuations carried out by independent actuarial firms in the case of Jerneh Insurance Berhad and Jerneh Insurance (HK) Limited and directors' estimation in the case of Jerneh Asia Reinsurance Limited.

**(l) Recognition of revenue**

(i) Insurance premium income is recognised as disclosed under explanatory note 1(k).

(ii) Interest income from government securities, bonds and loan stocks, fixed deposits and term loans receivable is recognised on an accrual basis.

(iii) Interest income from hire purchase and leasing transactions is recognised on a time proportion basis after taking into account the effective yield of the assets. When an account becomes non-performing, the recognition of interest income is suspended until it is realised on a cash basis. An account is deemed to be non-performing when repayment is in arrears for more than three months.

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(l) Recognition of revenue (cont'd)**

- (iv) Dividend income is recognised when the right to receive has been established.
- (v) Revenue from property management and consultancy services is recognised upon services being rendered.
- (vi) Brokerage fee income is recognised when the insurance policy is accepted by the insurer.
- (vii) Rental income is recognised on a straight line basis over the specific periods of the respective leases.

**(m) Foreign currencies**

*(i) Transactions in foreign currencies*

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rate ruling at that date. Non-monetary items which are stated at historical costs denominated in foreign currencies are translated to Ringgit Malaysia at the foreign exchange rates ruling at the dates of transactions. Foreign exchange differences arising on translation are recognised in the income statement.

*(ii) Translation of foreign currency financial statements*

For consolidation purposes, assets and liabilities of foreign subsidiary companies are translated at exchange rates ruling on the balance sheet date, whereas income statement items are translated at approximate rates of exchange ruling on transaction dates. All exchange differences arising from the translation of the financial statements of foreign subsidiary companies are dealt with through the exchange fluctuation reserve account. All the foreign subsidiaries fall within the classification of foreign entities under *FRS 121 - The Effects of Changes in Foreign Exchange Rates*.

*(iii) Closing exchange rates*

The closing exchange rates used for translation are as follows:

	2005 RM	2004 RM
1 Singapore Dollar ("SGD")	2.27	2.32
1 United States Dollar ("USD")	3.78	3.80
1 Hong Kong Dollar ("HKD")	0.49	0.49
1 Euro	4.49	5.17
1 Brunei Dollar ("BND")	2.27	N/A
1 Australia Dollar ("AUD")	2.77	2.96
100 Philippine Peso ("Peso")	7.13	6.77
100 Thai Baht ("Baht")	9.20	9.76
100 Japanese Yen ("JPY")	3.22	3.69

N/A – Not applicable

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(n) Employee benefits**

*(i) Short term benefits*

Wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as expenses in the period in which the associated services are rendered by employees of the Group and the Company.

*(ii) Post-employment benefits*

The Company and its Malaysian subsidiaries pay fixed contributions to the Employees Provident Fund Board ("EPF") which is a defined contribution plan.

The legal or constructive obligations of the Company and its Malaysian subsidiaries are limited to the amount that they agree to contribute to the EPF. Contributions to the EPF are charged to the income statement in the period to which they relate.

Some of the foreign subsidiary companies make contributions to their respective countries' statutory pension schemes which are recognised as an expense in the income statement as incurred.

**(o) Taxation**

The tax expense in the income statement represents the aggregate amount of current tax and deferred tax included in the determination of net profit or loss for the year.

On the balance sheet, a deferred tax liability is recognised for taxable temporary differences while a deferred tax asset is only recognised for deductible temporary differences, unutilised tax losses and unutilised tax credits to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences, tax losses and tax credits can be utilised. Deferred tax is not recognised if the temporary differences arise from goodwill or the initial recognition of an asset or liability which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured based on tax consequences that would follow from the manner in which the asset or liability is expected to be recovered or settled, and based on the tax rates enacted or substantively enacted by the balance sheet date that are expected to apply to the period when the asset is realised or when the liability is settled.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, whether in the same or a different period, directly to equity.

**(p) Bad and doubtful debts**

Known bad debts are written off and allowances are made for any debts considered to be doubtful of collection.

In addition to the above, all premium arising from policies underwritten by Jerneh Insurance Berhad outstanding for more than six months from inception date are fully provided for in accordance with Bank Negara Malaysia's guidelines on the determination of allowance for doubtful debts.

**(q) Payables**

Payables are stated at cost.

**(r) Borrowing costs**

All borrowing costs are taken to the income statement in the period in which they are incurred.

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(s) Cash equivalents**

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

**(t) Financial instruments**

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

The Group's financial instruments which are recognised in the balance sheet comprise cash and cash equivalents, investments, receivables, payables and ordinary shares. These financial instruments are recognised when a contractual relationship has been established. The accounting policies and methods adopted, including the basis of measurement applied, are disclosed in the respective notes.

There are no financial instruments not recognised in the balance sheet other than the insurance contracts entered into by the Group in the ordinary course of business.

**(u) Fair value of financial instruments**

Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. This is best evidenced by a quoted market price, if one exists. Quoted market price may not be available for certain financial instruments. Under these circumstances, fair values presented are estimates derived using present value or other valuation techniques. In addition, the calculation of estimated fair value is based on market conditions at the balance sheet date.

**(v) Rounding of amounts**

Unless otherwise indicated, the amounts in these financial statements have been rounded to the nearest thousand. The currency used is Ringgit Malaysia ("RM").

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The objective of risk management is to ensure that the Group's overall risk is managed at an acceptable level and that appropriate return is earned for the level of risk assumed.

A risk management policy is in place to identify and measure significant areas of business risk and to effectively manage those risks by establishing internal controls, systems, policies and procedures. Systems are designed to provide reasonable assurance that the assets are safeguarded, insurance risk exposure is within desired limits, reinsurance protection is adequate and counterparties are subject to security assessment. The risk management framework is reviewed on a periodic basis.

The general insurance portfolios are reviewed by professional actuaries and the review takes into account the adequacy of reserves to meet liabilities.

Subsidiaries and affiliates engaged in the insurance business comply with their specific Insurance Acts and Regulations in their respective jurisdictions.

**Underwriting risk**

Although the Group has in place underwriting guidelines which ensure that underwriting risks undertaken adhere to proper control procedures, the Group may be exposed to potential financial liabilities resulting from incurring higher claim costs than expected. This is due to the random nature of claims and their unpredictable frequency and severity and the risk of changes in legal or economic conditions affecting insurance pricing and conditions of insurance or reinsurance cover.

## 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### **Underwriting risk (cont'd)**

The underwriting and claims monitoring programme incorporates standards for underwriting procedures, policy retention limits, the use of reinsurance and the setting of claim reserves. Underwriting standards are established to manage the initial insurability of customers. Renewal underwriting standards are in place for business that renews on a periodic basis.

### **Reinsurance risk**

In the normal course of business, the Group limits the amount of loss on any one policy/event by reinsuring certain levels of risk with other reinsurers/insurers. Reinsurance does not discharge the Group's liability as the primary insurer. Failure of reinsurers to honour their obligations could also result in losses to the Group. In order to minimise losses from reinsurance insolvencies, the Group only deals with the most creditworthy counterparties.

### **Interest rate risk**

The Group's earnings are affected by changes in market interest rates due to the impact such changes have on interest income from cash and cash equivalents and investments. Strict investment guidelines are in place and reviewed regularly to provide the general direction for the Group's investment funds and to monitor the risk undertaken.

In respect of the unsecured revolving loan, the Group has maintained the funding on floating rates that allows it to take advantage of cheaper funding in a low interest rate environment. To minimise exposure to future interest rate hikes, the Group has an option to switch the funding to fixed rate terms.

### **Credit risk**

Other than the credit criteria observed in respect of the reinsurers and insurance companies, credit risk does arise in the ordinary course of business if customers, counterparties or intermediaries are unable or unwilling to fulfil their payment obligations.

The Group has a credit policy in place and the exposure to credit risk is monitored and controlled on an on-going basis within approved guidelines and procedures.

### **Foreign currency risk**

The Group is exposed to foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia. As the transactions are not material in the context of each operating unit's risk profile, the Group will consider hedging only in limited circumstances.

The Group's foreign currency translation exposures are represented by the net asset value of the Group's foreign currency equity in its subsidiary and associated companies. These are mainly held as long-term investments and ostensibly carry long gestation periods. The Group's investments are in Thailand, Philippines, Hong Kong and Labuan. Gains and losses on foreign currency exposure are taken to reserves.

### **Liquidity and cash flow risk**

The Group manages its liquidity and cash flow profiles to ensure that business operations maintain optimum levels of liquidity at all times sufficient to meet contractual obligations as and when they fall due. All operating insurance units within the Group have met the margin of solvency minimum requirements.

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**3. PROPERTY, PLANT AND EQUIPMENT**

Group	Freehold land and buildings RM'000	Computers RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
<b>Cost/Valuation</b>						
At 1.1.2005						
- cost	3,979	14,519	5,164	1,894	2,905	28,461
Additions	226	1,525	439	673	25	2,888
Surplus on revaluation	755	-	-	-	-	755
Disposals	-	(12)	(592)	(330)	(530)	(1,464)
Reversal of cost previously						
over-capitalised	-	-	(81)	-	(11)	(92)
Written off	-	(4)	-	-	-	(4)
Reclassification	-	1	(1)	-	-	-
Effect of exchange						
gain changes	100	(3)	61	18	36	212
At 31.12.2005						
- at cost	2,210	16,026	4,990	2,255	2,425	27,906
- at valuation	2,850	-	-	-	-	2,850
	5,060	16,026	4,990	2,255	2,425	30,756
<b>Accumulated depreciation</b>						
At 1.1.2005						
	414	8,629	2,850	942	1,804	14,639
Charge for the year	112	2,294	428	400	300	3,534
Disposals	-	(8)	(201)	(270)	(165)	(644)
Reversal of cost previously						
over-capitalised	-	-	(8)	-	(2)	(10)
Written off	-	(4)	-	-	-	(4)
Write back arising from						
revaluation	(223)	-	-	-	-	(223)
Effect of exchange						
rate changes	10	(3)	19	10	7	43
At 31.12.2005						
	313	10,908	3,088	1,082	1,944	17,335
<b>Net book value</b>						
At 31.12.2005						
- at cost	1,918	5,118	1,902	1,173	481	10,592
- at valuation	2,829	-	-	-	-	2,829
	4,747	5,118	1,902	1,173	481	13,421

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Freehold land and buildings RM'000	Computers RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
<b>Net book value</b>						
At 31.12.2004						
- at cost	3,565	5,890	2,314	952	1,101	13,822
Depreciation charged						
for the year ended						
31.12.2004	89	1,924	421	349	331	3,114
<i>The net book value of revalued assets based on the historical cost convention</i>						
At 31.12.2005	1,856	-	-	-	-	1,856
At 31.12.2004	1,872	-	-	-	-	1,872

The freehold land and buildings stated at valuation are those belonging to Jerneh Insurance Berhad. These were revalued by the directors during the financial year based on independent professional valuations on the open market value basis. The independent professional valuations were carried out by Mr Micheal Geh Thuang Peng, PJK, FISM, APEPS, CFP, B.Bus (Valuation & Land Econ) Aust and Mr Ho Sek Chuen, FISM, registered valuer, of Raine & Horne International Zaki & Partners Sdn Bhd on 11th October 2005 and 24th November 2005.

Company	Computers RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
Cost					
At 1.1.2005	180	215	190	365	950
Additions	-	6	-	-	6
Written off	(4)	-	-	-	(4)
At 31.12.2005	176	221	190	365	952
<b>Accumulated depreciation</b>					
At 1.1.2005	152	135	168	245	700
Charge for the year	13	22	22	37	94
Written off	(4)	-	-	-	(4)
At 31.12.2005	161	157	190	282	790

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**3. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

Company	Office equipment, furniture and fittings				
Cost	Computers RM'000	RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
<b>Net book value</b>					
At 31.12.2005	15	64	-	83	162
<b>Net book value</b>					
At 31.12.2004	28	80	22	120	250
Depreciation charged					
for the year ended 31.12.2004	18	22	38	37	115

**4. INVESTMENT PROPERTY**

	2005 RM'000	2004 RM'000
Freehold land and building known as <i>Wisma Jerneh</i>		
- at 2004 valuation	42,500	42,500

The investment property was revalued by the directors during the financial year ended 31st December 2004 based on an independent professional valuation on the open market value basis. The independent professional valuation was carried out by Mr Ho Sek Chuen, FISM, registered valuer, of Raine & Horne International Zaki & Partners Sdn Bhd on 14th October 2004.

**5. INVESTMENT IN SUBSIDIARY COMPANIES**

	2005 RM'000	2004 RM'000
Unquoted shares, at cost	107,236	107,236

The subsidiary companies are:

	Country of incorporation	Principal activities	Equity interest	
			2005 %	2004 %
Jerneh Insurance Berhad ("JIB")	Malaysia	Underwriting of general insurance business	80	80
Jerneh Credit Leasing Sdn Bhd ("JCL")	Malaysia	Hire purchase and leasing business	100	100
Jerneh Asia Capital Sdn Bhd ("JAC")	Malaysia	Trading in marketable securities	100	100
Jerneh Healthcare Services Sdn Bhd ("JHS")	Malaysia	Dormant	100	100

5. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

	Country of incorporation	Principal activities	Equity interest	
			2005 %	2004 %
Minsec Management Services Sdn Bhd ("MMS")	Malaysia	Management services	100	100
* Jerneh Asia Reinsurance Limited ("JAR")	Labuan Malaysia	Offshore reinsurance	100	100
+ Jerneh Insurance (HK) Limited ("JIHK")	Hong Kong	Underwriting of general insurance business	100	100
+ Taishan Insurance Brokers Limited ("TIBL")	Hong Kong	Insurance broker	100	100
* Taishan Insurance Brokers Philippines, Inc. ("TIBP")	Philippines	Insurance broker	100	100
* KRM Reinsurance Brokers Phils., Inc. ("KRMR")	Philippines	Reinsurance broker	100	100

+ audited by an associate of Moores Rowland

\* Not audited by Moores Rowland or its associates

6. AMOUNTS OWING BY/TO SUBSIDIARY COMPANIES

The amounts owing by the subsidiary companies are unsecured with no fixed repayment terms. Included in the amount owing by subsidiary companies are advances totalling RM65.88 million (2004 : RM41.9 million) which bear interest at 0.6% (2004 : 0.6%) per annum above the cost of funds of a reference bank. The effective interest rate of those advances at the balance sheet date was 4.10% (2004 : 3.59%) per annum.

The currency exposure profile of the amounts owing by subsidiary companies is as follows:

	2005 RM'000	2004 RM'000
- RM	75,609	51,296
- HKD	1,233	116
- Peso	1,497	1,108
	78,339	52,520

The amounts owing to the subsidiary company are unsecured and interest free with no fixed repayment terms.

## 7. INVESTMENT IN ASSOCIATED COMPANY

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unquoted shares, at cost	46,470	46,470	46,470	46,470
Share of post-acquisition losses	(25,223)	(18,174)	-	-
Effect of exchange rate changes	4,036	(603)	-	-
	25,283	27,693	46,470	46,470
Represented by:				
Share of net assets	20,062	22,204		
Goodwill on acquisition	5,221	5,489		
	25,283	27,693		

The associated company is Generali Asia N.V., a company incorporated in the Netherlands in which the Company holds a 40% (2004 : 40%) equity interest. The principal activity of the associated company is investment holding.

Subsidiary companies of Generali Asia N.V. are as follows:

	Country of incorporation	Principal activities	Equity interest	
			2005 %	2004 %
Generali Pilipinas Insurance Company, Inc	Philippines	Underwriting of general insurance business	60	60
Generali Pilipinas Life Assurance Company, Inc	Philippines	Underwriting of life insurance business	60	60
Generali Insurance (Thailand) Co., Ltd	Thailand	Underwriting of general insurance business	75	75
Generali Life Assurance (Thailand) Co., Ltd	Thailand	Underwriting of life insurance business	75	75

## 8. AMOUNT OWING BY/TO ASSOCIATED COMPANY

The amount owing by/to the associated company is denominated in Euro, unsecured and interest free with no fixed repayment terms.

9. OTHER INVESTMENTS

	2005 RM'000	2004 RM'000
Quoted investments		
Malaysian government securities, at cost	29,625	30,852
Amortisation of premiums	(2,330)	(1,973)
	27,295	28,879
Shares in corporations quoted in Malaysia, at cost	83,457	53,139
Unit trust of corporations quoted in Malaysia, at cost	1,925	-
Bonds and loan stocks of corporations, at cost		
- quoted in Malaysia	1,731	3,661
- quoted outside Malaysia	4,111	3,169
Amortisation of premiums	(208)	(215)
	5,634	6,615
Unquoted investments		
Bonds and loan stocks of corporations, at cost		
- In Malaysia	100,556	84,974
- Outside Malaysia	11,236	6,493
Accretion of discounts	1,523	1,004
	113,315	92,471
Unquoted shares, at cost	603	594
Allowance for diminution in value of investment	(117)	(110)
	486	484
	232,112	181,588
Market value of quoted investments		
Malaysian government securities	27,748	30,020
Shares quoted in Malaysia	84,147	61,400
Unit trust of corporations quoted in Malaysia, at cost	2,292	-
Bonds and loan stocks of corporations		
- quoted in Malaysia	1,567	4,127
- quoted outside Malaysia	4,080	3,102
	119,834	98,649

**9. OTHER INVESTMENTS (cont'd)**

The unquoted bonds and loan stocks are traded in "over the counter" markets. The fair value of these unquoted investments based on market prices quoted on these "over the counter" markets are as follows:

	2005 RM'000	2004 RM'000
Unquoted bonds and loan stocks		
- in Malaysia	104,559	87,965
- outside Malaysia	11,583	6,437

The effective interest rates of the fixed interest-bearing investments at the balance sheet date were as follows:

	2005 %	2004 %
Malaysian government securities	4.0 to 8.6	4.0 to 8.4
Bonds and loan stocks of corporations	3.5 to 8.4	3.4 to 11.0

The maturity terms of the above fixed interest-bearing investments are as follows:

	2005 RM'000	2004 RM'000
Malaysian government securities		
- within 1 year	5,018	-
- within 2 to 5 years	18,296	28,879
- after 5 years	3,981	-
	27,295	28,879
Bonds and loan stocks of corporations		
- within 1 year	25,390	8,646
- within 2 to 5 years	63,970	56,179
- after 5 years	29,589	34,261
	118,949	99,086

The currency exposure profile of the above investments is as follows:

	2005 RM'000	2004 RM'000
- RM	216,792	172,095
- USD	10,528	5,724
- HKD	1,956	3,705
- Peso	66	64
- AUD	2,770	-
	232,112	181,588

10. DEFERRED TAX ASSETS

	2005 RM'000	2004 RM'000
At beginning of the year	4,663	4,132
Reversed in the income statement	236	614
Transferred to equity	(131)	(77)
Effect of exchange rate changes	38	(6)
At end of the year	4,806	4,663

The Group has recognised deferred tax assets arising from deductible temporary differences of certain subsidiary companies as it is probable that their existing businesses would generate sufficient taxable profits in the future against which the deferred tax assets can be utilised.

The net deferred tax assets on temporary differences recognised in the financial statements are as follows:

	2005 RM'000	2004 RM'000
Provision for retirement benefits	118	76
Allowance for doubtful debts	4,608	4,802
Accruals for bonus	760	622
Unabsorbed capital allowances	316	152
Accumulated amortisation of premiums	834	710
Diminution in value of investment	552	33
Excess of capital allowance over accumulated depreciation on property, plant and equipment	(1,259)	(1,162)
Accumulated accretion of discounts	(635)	(483)
Unrealised foreign exchange gain	(14)	(19)
Lease rental receivable	(210)	(177)
Dividend receivable	(170)	-
Surplus on revaluation of investment property	(77)	(77)
Surplus on revaluation of buildings under property, plant and equipment	(131)	-
Other temporary differences	114	186
Net deferred tax assets	4,806	4,663

The temporary differences and unabsorbed tax losses for which deferred tax assets have not been recognized in the financial statements as at 31st December are as follows:

	2005 RM'000	2004 RM'000
Unabsorbed tax losses	2,788	1,679
Unabsorbed capital allowances	28	-
Accrual for bonus	32	30
Excess of capital allowance claimed on property, plant and equipment over accumulated depreciation	(307)	(29)

The tax losses and unabsorbed capital allowances are available for offset against future taxable profits of the subsidiaries in which those items arose. Deferred tax assets have not been recognized in respect of these items as they may not be used to offset taxable profits of others subsidiaries in the Group. They have arisen in companies that have past losses.

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**11. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Outstanding premium including insureds, agents, brokers and co-insurer balances	49,386	41,684	-	-
Amount due from reinsurers and ceding companies	20,490	27,550	-	-
	69,876	69,234	-	-
Allowance for doubtful debts	(11,542)	(15,105)	-	-
	58,334	54,129	-	-
Loans and advances	50,815	30,303	-	-
Allowance for doubtful debts	(3,735)	(3,171)	-	-
	105,414	81,261	-	-
Brokerage fees receivable	756	923	-	-
	106,170	82,184	-	-
Other receivables	5,498	4,989	30	84
Allowance for doubtful debts	(1,466)	(5)	-	-
	110,202	87,168	30	84
Interest receivable	2,877	2,557	2	9
Prepayments and deposits	1,976	764	62	62
	115,055	90,489	94	155

The currency exposure profile of gross trade and other receivables is as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
- RM	106,709	86,506	66	155
- USD	12,169	10,757	28	-
- HKD	4,519	4,726	-	-
- Peso	7,397	6,040	-	-
- SGD	582	741	-	-
- BND	90	-	-	-
- Baht	60	-	-	-
- JPY	272	-	-	-
	131,798	108,770	94	155

Loans and advances granted under the hire purchase and leasing business are for tenures of up to 5 years.

The effective interest rates of the loans and advances at balance sheet date ranged from 3.4% to 11.25% (2004 : 3.4% to 11.25%) per annum.

## 12. MARKETABLE SECURITIES

	2005 RM'000	2004 RM'000
Securities quoted in Malaysia		
- at cost	480	1,752
- at market value	2,993	2,970
Securities quoted outside Malaysia, at market value	4,730	1,063
	8,203	5,785
Market value of securities quoted in Malaysia	3,566	5,012

The currency exposure profile of marketable securities is as follows:

	2005 RM'000	2004 RM'000
- RM	3,473	4,722
- HKD	1,344	807
- SGD	3,386	256
	8,203	5,785

## 13. DEPOSITS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Fixed and call deposits with				
- licensed financial institutions in Malaysia	209,455	210,627	4,080	9,364
- licensed banks outside Malaysia	37,114	40,566	-	-
	246,569	251,193	4,080	9,364

The effective interest rates of the deposits at the balance sheet date were as follows:

	Group		Company	
	2005 %	2004 %	2005 %	2004 %
Fixed and call deposits with				
- licensed financial institutions in Malaysia	0.03 to 9.0	0.9 to 3.7	2.5 to 2.85	2.7 to 3.0
- licensed banks outside Malaysia	1.75 to 7.0	0.2 to 7.5	-	-

All the deposits have maturities of 12 months or less.

### 13. DEPOSITS (cont'd)

The currency exposure profile of the deposits is as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
- RM	184,012	184,403	4,080	9,364
- USD	43,129	51,037	-	-
- HKD	13,336	13,563	-	-
- Peso	3,571	1,780	-	-
- SGD	455	410	-	-
- JPY	2,062	-	-	-
- AUD	4	-	-	-
	246,569	251,193	4,080	9,364

### 14. CASH AND BANK BALANCES

The currency exposure profile of cash and bank balances is as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
- RM	20,672	16,799	911	3,565
- USD	1,888	6,180	-	-
- HKD	3,122	4,093	-	-
- Peso	699	455	-	-
- SGD	75	143	-	-
- JPY	3,084	15	-	-
- AUD	8	47	-	-
	29,548	27,732	911	3,565

### 15. PROVISION FOR OUTSTANDING CLAIMS

	2005 RM'000	2004 RM'000
Provision for outstanding claims	300,545	293,192
Recoverable from reinsurers	(111,962)	(122,971)
Net outstanding claims	188,583	170,221

**15. PROVISION FOR OUTSTANDING CLAIMS (cont'd)**

Movement of claims is analysed as follows:

	2005 RM'000	2004 RM'000
Gross claims paid less salvage	136,557	111,799
Reinsurance recoveries	(49,682)	(36,589)
Net claims paid	86,875	75,210
Net outstanding claims:		
At end of the year	188,583	170,221
At beginning of the year	(170,221)	(159,371)
Effect of exchange rate changes	17	(18)
Insurance claims incurred	105,254	86,042

**16. TRADE AND OTHER PAYABLES**

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Amounts due to insureds, agents, brokers and co-insurers	15,800	14,726	-	-
Amounts due to reinsurers and ceding companies	50,207	38,025	-	-
Other payables	16,766	17,531	234	519
Accruals	5,350	4,210	586	331
	88,123	74,492	820	850

The currency exposure profile of trade and other payables is as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
- RM	72,235	61,731	820	850
- USD	7,245	3,236	-	-
- HKD	3,067	3,083	-	-
- Peso	5,432	6,322	-	-
- SGD	141	120	-	-
- Baht	3	-	-	-
	88,123	74,492	820	850

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**17. UNEARNED PREMIUM RESERVES**

	2005 RM'000	2004 RM'000
At beginning of the year	80,450	69,292
Increase for the year	13,306	11,158
	93,756	80,450
Effect of exchange rate changes	(60)	-
At end of the year	93,696	80,450

**18. BANK BORROWING (unsecured)**

	2005 RM'000	2004 RM'000
Revolving credit	44,000	23,800

The revolving credit, which is denominated in RM, bears interest at 0.6% per annum (2004 : 0.6%) above the cost of funds of a lending bank. The effective interest rate of the revolving credit at the balance sheet date was 4.10% (2004 : 3.59%) per annum.

**19. DEFERRED TAX LIABILITIES**

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At beginning of the year	2,660	-	2,660	-
(Reversed)/Recognised in the income statement	(1,165)	2,660	(1,165)	2,660
Transferred to equity	26	-	-	-
At end of the year	1,521	2,660	1,495	2,660

The net deferred tax liabilities on temporary differences recognised in the financial statements are as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unabsorbed capital allowances	(108)	(101)	(108)	(101)
Accruals for bonus	(114)	(79)	(114)	(79)
Unabsorbed tax losses	(557)	(568)	(557)	(568)
Excess of capital allowance over accumulated depreciation on property, plant and equipment	32	48	32	48
Interest receivable	2	-	2	-
Surplus on revaluation of freehold land under property, plant and equipment	26	-	-	-
Dividend receivable	2,240	3,360	2,240	3,360
Net deferred tax liabilities	1,521	2,660	1,495	2,660

## 20. SHARE CAPITAL

	2005 RM'000	2004 RM'000
Authorised:		
Ordinary shares of RM1 each	500,000	500,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At beginning of the year	108,389	107,202
Shares issued pursuant to ESOS	413	1,187
At end of the year	108,802	108,389

The main features of the Employee Share Option Scheme ("ESOS") as set out in the Bye-Laws are as follows:

- (a) The Option Committee appointed by the Board of Directors to administer the ESOS may from time to time offer options to eligible employees of the Group, including Executive Directors, to subscribe for new ordinary shares of RM1 each in the Company.
- (b) In aggregate, the maximum number of new shares to be allotted pursuant to the exercise of options granted under the ESOS shall not exceed 10% of the issued and paid up share capital of the Company at any point of time during the existence of the ESOS, save and except in the subsequent event of a reduction in the issued and paid up share capital of the Company by virtue of the Company purchasing its own shares which may cause the aforesaid limit to be exceeded.
- (c) The price at which the option holder is entitled to subscribe for a new share under an option shall be the higher of:
  - (i) the weighted average market price of the shares as shown in the Daily Official List issued by Bursa Malaysia for the five (5) market days immediately preceding the date of offer with a discount of 10% if deemed appropriate by the Option Committee; or
  - (ii) the par value of the shares.
- (d) No option shall be granted for less than 1,000 shares and more than 500,000 shares to any eligible employee or Director. The allocation to eligible Executive Directors and senior management shall not exceed 50% of the new shares available under the scheme. In addition, not more than 10% of the new shares available under the scheme should be allocated to any individual Executive Director or employee who, either singly or collectively, through his associates (as defined in the Act), holds 20% or more of the issued and paid up capital of the Company.
- (e) Options granted under the ESOS carry no rights to dividends and voting. The employees' entitlements to the options are not subject to any vesting conditions. Shares issued pursuant to the ESOS rank pari passu in all respect with existing ordinary shares of the Company.
- (f) The persons to whom the options have been granted shall not be eligible to participate by virtue of the options in any share issue of any other company.

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**20. SHARE CAPITAL (cont'd)**

The details of options granted under the ESOS over the ordinary shares of the Company are as follows:

**Year ended 31.12.2005**

Date option granted	Date of expiry	Exercise price RM	— No. of unissued shares of RM1 each under option —				At 31.12.2005
			At 1.1.2005	Granted	Lapsed	Exercised	
31.1.2002	14.1.2007	1.90	2,192,000	-	148,000	323,000	1,721,000
1.7.2002	14.1.2007	1.94	161,000	-	-	38,000	123,000
3.3.2003	14.1.2007	1.80	116,000	-	-	52,000	64,000
28.7.2003	14.1.2007	1.94	65,000	-	-	-	65,000
			2,534,000	-	148,000	413,000	1,973,000

**Year ended 31.12.2004**

Date option granted	Date of expiry	Exercise price RM	— No. of unissued shares of RM1 each under option —				At 31.12.2004
			At 1.1.2004	Granted	Lapsed	Exercised	
31.1.2002	14.1.2007	1.90	3,301,000	-	68,000	1,041,000	2,192,000
1.7.2002	14.1.2007	1.94	195,000	-	-	34,000	161,000
3.3.2003	14.1.2007	1.80	269,000	-	65,000	88,000	116,000
28.7.2003	14.1.2007	1.94	111,000	-	22,000	24,000	65,000
			3,876,000	-	155,000	1,187,000	2,534,000

Details of options exercised during the year are as follows:

Exercise date	Fair value of shares at share issue date RM/Share	Exercise price RM/Share	Number of — shares issued —	
			2005 '000	2004 '000
January 2004 - June 2004	2.30 - 2.48	1.80	-	65
January 2004 - June 2004	2.26 - 2.50	1.90	-	968
January 2004 - June 2004	2.34 - 2.48	1.94	-	49
July 2004 - December 2004	2.20	1.80	-	23
July 2004 - December 2004	2.16 - 2.39	1.90	-	73
July 2004 - December 2004	2.16 - 2.39	1.94	-	9
January 2005 - June 2005	2.17 - 2.35	1.80	52	-
January 2005 - June 2005	2.17 - 2.35	1.90	266	-
January 2005 - June 2005	2.16 - 2.17	1.94	38	-
July 2005 - December 2005	2.10 - 2.20	1.90	57	-
			413	1,187

**20. SHARE CAPITAL (cont'd)**

	2005 RM'000	2004 RM'000
Ordinary shares at nominal value	413	1,187
Share premium	368	1,062
Proceeds	781	2,249
Fair value of shares at share issue date	925	2,835

The fair value of shares issued on the exercise of options is the daily average market price at which the Company's shares were traded on Bursa Malaysia.

**21. RETAINED PROFITS**

Subject to agreement with the Inland Revenue Board and based on estimated tax credits available, the prevailing tax rate applicable to dividends and the balance on the tax exempt account, the entire retained profits of the Company is available for distribution by way of dividends without incurring additional tax liability.

**22. OPERATING REVENUE**

	2005 RM'000	2004 RM'000
Gross written premium less returns	307,954	303,850
Reinsurance outwards	(131,561)	(150,381)
Changes in unearned premium reserves	(13,305)	(11,158)
	163,088	142,311
Brokerage fee income	7,122	7,150
Proceeds from sale of marketable securities held for trading	5,523	16,970
Management fee income	-	18
Security service income	140	113
Interest income from		
- fixed and call deposits	3,435	2,912
- Malaysian government securities	1,787	1,790
- unquoted bond and loan stocks	3,828	3,710
- loan and advances	2,938	2,478
Gross dividend income from		
- shares quoted in Malaysia	4,280	2,732
- unit trust quoted in Malaysia	14	20
- marketable securities quoted in Malaysia	-	218
Income from investment property		
- rental income	1,718	1,576
- parking income	307	301
Accretion of discounts on other investments	1,090	679
	195,270	182,978

### 23. OPERATING COSTS APPLICABLE TO OPERATING REVENUE

	2005 RM'000	2004 RM'000
Insurance claims incurred ( <i>note 15</i> )	105,254	86,042
Net commission expense	11,461	8,523
Cost of marketable securities sold	4,994	14,479
Write down of marketable securities to net realisable value	1,562	902
Building management expenses	756	692
Amortisation of premiums on other investments	736	640
	124,763	111,278

### 24. OTHER OPERATING INCOME

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Income from other investments:				
- gain on disposal	7,077	12,302	-	-
- accretion of discounts	1	-	-	-
- interest income:				
• bonds and loan stocks:				
- quoted outside Malaysia	163	177	-	-
- unquoted in Malaysia	107	56	-	-
• fixed deposits	2,118	1,198	-	-
• treaty premium reserve withheld	150	123	-	-
- gross dividend income from shares				
outside Malaysia	49	87	-	-
Rental income	-	2	-	-
Service fee income	158	147	-	-
Management fee income	-	-	63	69
Allowance for doubtful debts written back	2,115	10	-	-
Bad debts recovered	1	-	-	-
Gain on disposal of property, plant and equipment	49	142	-	-
Realised gain on foreign exchange	97	102	4	-
Net unrealised gain on marketable securities	8	173	-	-
Commission income	318	-	-	-
Others	711	410	248	151
	13,122	14,929	315	220

## 25. OPERATING EXPENSES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Marketing costs	14,344	12,288	-	-
Administrative and general expenses	35,661	37,644	2,450	2,001
Loss on sale of other investments	64	401	-	-
Realised loss on foreign exchange	1,384	31	-	-
Unrealised loss on foreign exchange	246	-	29	-
Interest payable on bond policies	51	-	-	-
	51,750	50,364	2,479	2,001
Other operating expenses include:				
Staff costs (excluding				
Executive Directors' remuneration) *	28,203	25,768	838	810
Auditors' remuneration				
- current year	290	314	30	30
- (over)/under provision in prior year	(6)	22	-	-
Depreciation	3,534	3,114	94	115
Directors' remuneration ** (note 26)	1,611	1,373	1,010	760
Hire of equipment	566	802	-	-
Loss on disposal of property, plant and				
equipment	623	1	-	-
Allowance for doubtful debts	592	3,451	-	-
Bad debts written off	176	160	-	28
Rental of premises	1,484	1,449	203	203
The number of employees (including Executive				
Directors) as at the end of the financial year	483	477	15	17

\* Include contributions to defined contributions plans amounting to RM2,985,000 (2004 : RM2,766,000) for the Group and RM105,000 (2004 : RM98,000) for the Company.

\*\* Does not include the estimated monetary value of benefits-in-kind received and receivable.

## 26. DIRECTORS' REMUNERATION

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Non-executive Directors				
- fees				
• current year	347	340	192	185
• overprovision in prior year	(7)	-	-	-
- other emoluments	10	13	-	-
	350	353	192	185

26. DIRECTORS' REMUNERATION (cont'd)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Executive Directors				
- salaries and bonuses	1,119	912	705	496
- EPF contributions	142	108	113	79
	1,611	1,373	1,010	760
Executive Director				
- benefits-in-kind	12	12	12	12
	1,623	1,385	1,022	772

An Executive Director has been granted options under the ESOS on the same terms and conditions as those offered to other employees of the Group (see explanatory note 20 above) as follows:

Date of option granted	Date of expiry	Exercise price RM	— No. of unissued shares of RM1 each under option —			
			At 1.1.2005	Granted	Lapsed	At 31.12.2005
31.1.2002	14.1.2007	1.90	165,000	-	-	165,000

27. INVESTMENT INCOME (net)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Gross dividends from				
- subsidiary companies	-	-	17,423	15,892
- shares quoted in Malaysia	753	274	-	-
- unquoted shares	197	56	-	-
Interest income from				
- advances to subsidiary companies	-	-	1,732	1,478
- fixed deposits	2,182	2,170	179	288
- unquoted bonds and loan stocks in Malaysia	269	621	-	7
Amortisation of premiums on other investments	(66)	(214)	-	(1)
Gain on sale of other investments	1,665	2,110	-	-
Allowance for diminution in value of other investments	(1,854)	(62)	-	-
Final cash distribution on liquidation of a former associated company, Kian Min Realty Sdn Bhd	-	50	-	-
	3,146	5,005	19,334	17,664

## 28. TAXATION

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Malaysian taxation based on the results for the year				
- current	8,469	5,850	3,210	-
- deferred	(1,170)	2,615	(1,165)	2,660
Foreign taxation based on the results for the year				
- current	656	740	98	108
- deferred	(159)	(222)	-	-
	7,796	8,983	2,143	2,768
Overprovision in prior years				
- current	(531)	(894)	(46)	-
- deferred	(72)	(347)	-	-
	7,193	7,742	2,097	2,768

The provision for taxation differs from the amount of taxation determined by applying the applicable statutory tax rates to the profit before tax as a result of the following differences:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Accounting profit (excluding share of results in associated company)	33,999	40,437	16,144	15,050
Taxation at applicable tax rates	7,404	11,219	4,520	4,214
Tax effect of:				
- non-deductible expenses	1,625	1,620	164	114
- non-taxable income	(850)	(1,777)	(2,639)	(1,090)
- utilisation of previously unrecognised tax losses	-	(564)	-	-
- different tax rates in foreign countries	(751)	(1,118)	-	-
- change in tax rate	(46)	80	-	-
Deferred tax assets not recognised during the year	321	2	-	-
Deferred tax assets not recognised in prior year	-	(578)	-	(578)
Overprovision in prior years	(603)	(1,241)	(46)	-
Foreign tax paid	98	108	98	108
Others	(5)	(9)	-	-
Tax at effective rate	7,193	7,742	2,097	2,768

## 29. EARNINGS PER SHARE

### (i) Basic earnings per share

The basic earnings per share has been calculated by dividing the Group's net profit for the year of RM15,104,000 (2004 : RM20,971,000) by the weighted average number of shares in issue of 108,694,000 (2004 : 108,084,000) during the year.

### (ii) Diluted earnings per share

The diluted earnings per share has been calculated by dividing the Group's net profit for the year of RM15,104,000 (2004 : RM20,971,000) by the weighted average number of ordinary shares that would have been in issue upon full exercise of the remaining options under the ESOS and adjusted for the shares that would have been issued at fair value calculated as follows:

	2005 RM'000	2004 RM'000
Weighted average number of ordinary shares as in (i) above	108,694	108,084
Weighted average number of unissued shares under the ESOS		
- based on exercise price	2,196	2,787
- based on average fair value	(1,990)	(2,302)
<b>Weighted average number of ordinary shares that would have been in issue</b>	<b>108,900</b>	<b>108,569</b>

## 30. DIVIDENDS

	2005 RM'000	2004 RM'000
First and final dividend of 5% (2004 : 8%) less tax at 28%	3,917	6,243
Additional dividend paid in respect of prior year following the issue of additional shares pursuant to ESOS	20	61
	3,937	6,304

## 31. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current year's acquisition	2,888	5,982	6	7
Payment of previous year's acquisitions	1,080	-	-	-
Unpaid balance included under other payables	(669)	(1,080)	-	-
<b>Cash paid during the year</b>	<b>3,299</b>	<b>4,902</b>	<b>6</b>	<b>7</b>

### 32. RELATED PARTY TRANSACTIONS

The Company has a relationship with its subsidiaries.

Significant transactions during the financial year were as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Gross premium received and receivable from a substantial shareholder, namely, Kuok Brothers Sdn Berhad ("KBSB") and KBSB's subsidiary, associated and major investee companies	30,158	30,905	-	-
Loan interest receivable from				
- JCL	-	-	1,026	832
- JAC	-	-	706	646
Internal audit fee receivable from JIB	-	-	480	458
Management fee income receivable from				
- JIHK	-	-	39	39
- TIBL	-	-	12	12
- JAR	-	-	12	12
- JHS	-	-	-	6
Office rental payable to JIB	-	-	202	202
Secretarial fee payable to KBSB	42	44	18	18

The above transactions were entered into in the normal course of business and were established under negotiated terms.

Non-trade balances with related parties as at year end were as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Outstanding advances owing by subsidiary companies:				
- JCL	-	-	44,111	23,963
- JAC	-	-	21,950	18,209
- JIB	-	-	5,760	9,098
- JAR	-	-	3,789	12
- JIHK	-	-	674	75
- TIBL	-	-	559	41
- TIBP	-	-	938	60
- KRMR	-	-	558	1,048
- MMS	-	-	-	14

**32. RELATED PARTY TRANSACTIONS (cont'd)**

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Outstanding advances owing to subsidiary company:				
- JIB	-	-	-	23
Outstanding advances owing by associated company:				
- Generali Asia N.V.	15,703	5,998	16,860	5,998

**33. CONTINGENT LIABILITIES**

- (a) During the year, JIB terminated a software development agreement entered into in 2003 with CMS I-Systems Berhad for the development of a general insurance software programme for a contract sum of RM2 million. JIB terminated the said agreement as a consequence of project delays and non-completion of deliverables.

CMS I-Systems Berhad has made a claim for breach of contract (without specifying any amount) and invoiced JIB RM5,466,968 for work performed up to the point of termination, which JIB, in turn, had disputed. The matter has been referred to arbitration proceedings.

JIB's directors have been advised by counsel that JIB has a reasonable chance to defend the matter. Accordingly, no provision has been made in the financial statements for the said amount invoiced.

- (b) The Company has given guarantees amounting to RM15,000,000 (2004 : RM4,300,000) to secure bank guarantees given to certain third parties.

**34. COMMITMENTS**

**(i) Capital commitments**

Capital expenditure approved by directors but not provided for in the financial statements amounted to approximately:

	Group	
	2005 RM'000	2004 RM'000
Authorised and contracted for	713	1,868

**34. COMMITMENTS (cont'd)**

**(ii) Non-cancellable operating lease commitments**

	Group	
	2005 RM'000	2004 RM'000
Future minimum rentals payable		
- Not later than 1 year	164	361
- Later than 1 year and not later than 5 years	-	165
	164	526

**35. FINANCIAL INSTRUMENTS**

**(a) Credit risk**

The Group and the Company do not have any significant concentration of credit risk that may arise from exposure to a single customer or to a single group of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

**(b) Fair value**

The carrying amounts of the financial assets and liabilities of the Group at the balance sheet date approximated their fair values due to their short maturities except for the unquoted equity investments.

It is not practical to estimate the fair value of the unquoted equity investments due to the lack of information on market value and inability to estimate the fair value without incurring excessive costs. However, the Group believes that the carrying amount fairly represents the recoverable value.

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**36. SEGMENTAL REPORTING**

	Underwriting general insurance business RM'000	Insurance brokerage RM'000	Credit and leasing RM'000	Trading in marketable securities RM'000	Administration and management services RM'000	Investment holding RM'000	Elimination RM'000	Consolidated RM'000
<b>(a) By business segment 2005</b>								
<b>REVENUE</b>								
External sales	179,325	7,122	2,938	5,745	140	-	-	195,270
Inter-segment sales	269	27	-	-	90	-	(386)	-
<b>Total revenue</b>	<b>179,594</b>	<b>7,149</b>	<b>2,938</b>	<b>5,745</b>	<b>230</b>	<b>-</b>	<b>(386)</b>	<b>195,270</b>
<b>RESULTS</b>								
Segment result	30,831	1,986	2,115	(832)	54	(2,162)	(113)	31,879
Interest income	1,624	326	6	370	13	1,910	(1,798)	2,451
Dividend income	950	-	-	-	-	17,423	(17,423)	950
Gain on sale of other investments	1,665	-	-	-	-	-	-	1,665
Allowance for diminution in value	(1,853)	(1)	-	-	-	-	-	(1,854)
Amortisation of premiums	(59)	-	-	(7)	-	-	-	(66)
Share of associated company's loss	-	-	-	-	-	(6,975)	-	(6,975)
Finance cost	-	-	-	-	-	(1,026)	-	(1,026)
<b>Profit before taxation</b>								<b>27,024</b>
<b>Taxation</b>								<b>(7,267)</b>
<b>Profit after taxation</b>								<b>19,757</b>
<b>Minority interest</b>								<b>(4,653)</b>
<b>Net profit for the year</b>								<b>15,104</b>

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

36. SEGMENTAL REPORTING (cont'd)

	Underwriting general insurance business RM'000	Insurance brokerage RM'000	Credit and leasing RM'000	Trading in marketable securities RM'000	Administration and management services RM'000	Investment holding RM'000	Consolidated RM'000
<b>2005</b>							
<b>OTHER INFORMATION</b>							
Segment assets	88,492	11,742	48,893	15,742	191	16,870	181,930
Investing assets	42,500	-	-	-	-	-	42,500
Associated company	-	-	-	-	-	25,283	25,283
Tax assets	6,261	748	1,041	282	38	2,832	11,202
Other investments	229,530	66	-	2,516	-	-	232,112
Deposits	236,837	4,880	-	311	460	4,081	246,569
Consolidated total assets							739,596
Segment liabilities	363,887	5,462	179	7	49	835	370,419
Tax liabilities	46	162	-	-	-	1,495	1,703
Bank borrowing	-	-	-	-	-	44,000	44,000
Consolidated total liabilities							416,122
Capital expenditure	2,206	666	10	-	-	6	2,888
Depreciation	3,061	372	7	-	-	94	3,534

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

**36. SEGMENTAL REPORTING (cont'd)**

	Underwriting general insurance business RM'000	Insurance brokerage RM'000	Credit and leasing RM'000	Trading in marketable securities RM'000	Administration and management services RM'000	Investment holding RM'000	Elimination RM'000	Consolidated RM'000
<b>(a) By business segment 2004</b>								
<b>REVENUE</b>								
External sales	156,031	7,150	2,478	17,188	131	-	-	182,978
Inter-segment sales	276	-	-	-	173	-	(449)	-
<b>Total revenue</b>	<b>156,307</b>	<b>7,150</b>	<b>2,478</b>	<b>17,188</b>	<b>304</b>	<b>-</b>	<b>(449)</b>	<b>182,978</b>
<b>RESULTS</b>								
Segment result	34,303	974	1,016	1,788	(35)	(1,781)	-	36,265
Interest income	2,005	212	45	224	10	295	-	2,791
Dividend income	330	-	-	-	-	-	-	330
Gain on sale of other investments	2,110	-	-	-	-	-	-	2,110
Allowance for diminution in value	(62)	-	-	-	-	-	-	(62)
Amortisation of premiums	(206)	-	-	(8)	-	-	-	(214)
Other	50	-	-	-	-	-	-	50
Share of associated company's loss	-	-	-	-	-	(6,515)	-	(6,515)
Finance cost	-	-	-	-	-	(833)	-	(833)
<b>Profit before taxation</b>								<b>33,922</b>
<b>Taxation</b>								<b>(7,916)</b>
<b>Profit after taxation</b>								<b>26,006</b>
<b>Minority interest</b>								<b>(5,035)</b>
<b>Net profit for the year</b>								<b>20,971</b>

Accounting Policies and Explanatory Notes  
for the year ended 31st December 2005 (cont'd)

36. SEGMENTAL REPORTING (cont'd)

	Underwriting general insurance business RM'000	Insurance brokerage RM'000	Credit and leasing RM'000	Trading in marketable securities RM'000	Administration and management services RM'000	Investment holding RM'000	Consolidated RM'000
<b>2004</b>							
<b>OTHER INFORMATION</b>							
Segment assets	87,460	11,346	27,757	7,095	198	9,970	143,826
Investing assets	42,500	-	-	-	-	-	42,500
Associated company	-	-	-	-	-	27,693	27,693
Tax assets	4,631	1,839	712	232	32	3,880	11,326
Other investments	179,001	64	-	2,523	-	-	181,588
Deposits	231,435	3,195	344	6,446	409	9,364	251,193
<b>Consolidated total assets</b>							<b>658,126</b>
Segment liabilities	317,521	6,386	338	11	57	850	325,163
Tax liabilities	20	133	-	-	-	2,660	2,813
Bank borrowing	-	-	-	-	-	23,800	23,800
<b>Consolidated total liabilities</b>							<b>351,776</b>
Capital expenditure	5,703	262	10	-	-	7	5,982
Depreciation	2,675	318	6	-	-	115	3,114

36. SEGMENTAL REPORTING (cont'd)

	Revenue RM'000	Carrying amount of segment assets RM'000	Capital expenditure RM'000
<b>(b) By geographical segment 2005</b>			
Malaysia	176,425	156,024	2,222
Hong Kong	14,163	16,613	-
Philippines	4,682	9,293	666
	<b>195,270</b>	<b>181,930</b>	<b>2,888</b>
<b>2004</b>			
Malaysia	162,843	123,320	5,711
Hong Kong	15,553	11,564	18
Philippines	4,582	8,942	253
	<b>182,978</b>	<b>143,826</b>	<b>5,982</b>

All inter-segment transactions have been carried out in the normal course of business and have been established under negotiated terms.

37. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 13th April 2006 by the Board of Directors.

## 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 40 to 83 are drawn up:

- (a) so as to give a true and fair view of the state of affairs of the Group and of the Company at 31st December 2005 and of their results and cash flows for the year then ended on that date;
- (b) in accordance with applicable approved accounting standards and the provisions of the Companies Act, 1965.

Signed on behalf of the Directors in accordance with a directors' resolution dated 13th April 2006

**DATO' LIM CHEE WAH**  
Director

**TAM CHIEW LIN**  
Director

Kuala Lumpur

## STATUTORY DECLARATION

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

I, Tam Chiew Lin, being the Director primarily responsible for the financial management of Jerneh Asia Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 40 to 83 are correct.

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at )  
Kuala Lumpur in the Federal Territory ) **TAM CHIEW LIN**  
this 13th day of April 2006 )

Before me:

**ROBERT LIM HOCK KEE**  
Commissioner for Oaths

Kuala Lumpur

## SHAREHOLDINGS STATISTICS

as at 31st March 2006

Authorised Share Capital	-	RM500,000,000
Issued and Fully Paid up Capital	-	RM108,837,003
Class of Shares	-	Ordinary Shares of RM1.00 each fully paid
Voting Rights	-	One vote per share

### DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Holders	% of Holders	No. of Shares	% of Issued Capital
Less than 100	26	0.90	483	0.00
100 - 1,000	435	15.06	381,455	0.35
1,001 - 10,000	2,046	70.85	6,798,947	6.25
10,001 - 100,000	338	11.70	8,552,437	7.86
100,001 to less than 5% of issued shares	39	1.35	26,126,744	24.00
5% and above of issued shares	4	0.14	66,976,937	61.54
	2,888	100.00	108,837,003	100.00

### DIRECTORS' INTERESTS IN SHARES

In the Company	Direct Interest		Deemed Interest	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
Dato' Lim Chee Wah	30,000	0.03	-	-
Tan Yew Jin	120,000	0.11	155,250	0.14
Tam Chiew Lin	10,000	0.01	-	-
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	60,000	0.06	-	-
Ahmad Riza bin Basir	-	-	17,169,407	15.78
Anwarudin bin Hj Abdul Rahman	40,000	0.04	-	-
Graham Hecmond Wong	-	-	-	-

Share Option	No. of Option over Ordinary Shares
Tan Yew Jin	175,000
Tam Chiew Lin	165,000

Shareholdings Statistics  
as at 31st March 2006 (cont'd)

**IN RELATED CORPORATIONS**

Ahmad Riza bin Basir is deemed to be interested in the shares of the following subsidiary companies :-

	No. of Ordinary Shares of RM1.00 each	% of Issued Capital
Jerneh Insurance Bhd	80,000,000	80
Jerneh Credit Leasing Sdn Bhd	1,000,000	100
Jerneh Healthcare Services Sdn Bhd	250,000	100
Jerneh Asia Capital Sdn Bhd	2	100
Minsec Management Services Sdn Bhd	25,000	100

	No. of Ordinary Shares of HKD100 each	% of Issued Capital
Jerneh Insurance (HK) Limited	500,000	100

	No. of Ordinary Shares of HKD1.00 each	% of Issued Capital
Taishan Insurance Brokers Limited	1,000,000	100

	No. of Ordinary Shares of PHP100 each	% of Issued Capital
KRM Reinsurance Brokers Phils., Inc	480,000	100
Taishan Insurance Brokers Philippines, Inc	480,000	100

	No. of Ordinary Shares of USD1.00 each	% of Issued Capital
Jerneh Asia Reinsurance Limited	3,200,000	100

Other than as disclosed above, none of the Directors of the Company had any direct nor deemed interest in shares of any related corporations of the Company.

Shareholdings Statistics  
as at 31st March 2006 (cont'd)

**SUBSTANTIAL SHAREHOLDERS**

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	% of Issued Capital	No. of Shares	% of Issued Capital
Kuok Brothers Sdn Berhad	41,766,030	38.37	60,000	0.06
BHR Enterprise Sdn Bhd	17,169,407	15.78	-	-
Sable Investment Corporation	8,076,360	7.42	-	-
Ahmad Riza bin Basir	-	-	17,169,407	15.78
Tan Sri Dato' Haji Basir bin Ismail	60,000	0.06	17,169,407	15.78
Puan Sri Hamidah bt Abdul Rahman	-	-	17,169,407	15.78
Roshayati bt Basir	-	-	17,169,407	15.78
Rosilawati bt Basir	-	-	17,169,407	15.78
Rozanazetti bt Basir	-	-	17,169,407	15.78
Frank Tsao Wen King	-	-	8,076,360	7.42

**THE THIRTY LARGEST SHAREHOLDERS** (As per Record of Depositors)

Name of Shareholders	No. of Shares	% of Issued Capital
1. Kuok Brothers Sdn Berhad	41,766,030	38.37
2. BHR Enterprise Sdn Bhd	9,169,407	8.42
3. HDM Nominees (Asing) Sdn Bhd	8,041,500	7.39
<i>UOB Kay Hian (Hong Kong) Limited for Sable Investment Corporation</i>		
4. Bumiputra-Commerce Nominees (Tempatan) Sdn Bhd	8,000,000	7.35
<i>Pledged Securities Account for BHR Enterprise Sdn Bhd</i>		
5. Citigroup Nominees (Asing) Sdn Bhd	4,075,680	3.74
<i>CB LDN for The Miller Insurance Group Limited</i>		
6. Cimsec Nominees (Tempatan) Sdn Bhd	3,790,000	3.48
<i>CIMB for Dato' Seri Ismail Farouk bin Abdullah</i>		
7. Ophir Holdings Berhad	3,484,125	3.20
8. Alliancegroup Nominees (Tempatan) Sdn Bhd	2,936,300	2.70
<i>PHEIM Asset Management Sdn Bhd for Employees Provident Fund Board</i>		

Shareholdings Statistics  
as at 31st March 2006 (cont'd)

**THE THIRTY LARGEST SHAREHOLDERS** (As per Record of Depositors) (cont'd)

Name of Shareholders	No. of Shares	% of Issued Capital
9. Employees Provident Fund Board	1,099,000	1.01
10. Key Development Sdn Berhad	1,091,800	1.00
11. Gan Teng Siew Realty Sdn Berhad	806,100	0.74
12. Asia Life (M) Berhad	700,000	0.64
13. Adora Holdings Sdn Bhd	697,230	0.64
14. TA Nominees (Tempatan) Sdn Bhd	631,200	0.58
<i>Pledged Securities Account for Oh Kim Sun</i>		
15. HSBC Nominees (Asing) Sdn Bhd	554,000	0.51
<i>For Dalex Investments Limited</i>		
16. Lim Tean Kau	520,000	0.48
17. Chinchoo Investment Sdn Berhad	502,000	0.46
18. HDM Nominees (Tempatan) Sdn Bhd	481,400	0.44
<i>Pledged Securities Account for Oh Kim Sun</i>		
19. Gan Teng Siew Realty Sdn Berhad	449,000	0.41
20. Quarry Lane Sdn Bhd	318,000	0.29
21. Vintage Forte Sdn Bhd	300,000	0.28
22. Mikdavid Sdn Bhd	289,000	0.27
23. Neoh Choo Ee & Company, Sdn Berhad	275,000	0.25
24. Citigroup Nominees (Asing) Sdn Bhd	265,700	0.24
<i>CBNY for DFA Emerging Markets Fund</i>		
25. Malaysia Nominees (Tempatan) Sdn Bhd	262,800	0.24
<i>Pledged Securities Account for Melval Holdings Sdn Bhd</i>		
26. JF Apex Nominees (Tempatan) Sdn Bhd	213,700	0.20
<i>Pledged Securities Account for Teo Kwee Hock</i>		
27. Yong Kiow Ying	204,577	0.19
28. Lee Eng Hock & Co. Sendirian Berhad	195,000	0.18
29. Yong Ah Keon	194,640	0.18
30. HDM Nominees (Tempatan) Sdn Bhd	160,000	0.15
<i>Pledged Securities Account for Goldinas Sdn Bhd</i>		
	91,473,189	84.05

## LIST OF PROPERTIES

as at 31st March 2006

Registered Owner	Description/ Location	Tenure	Approximate Building Age (Years)	Approximate Land Area (Sq. Metres)	Net Book Value at 31st December 2005 (RM)	Date of Revaluation
Jerneh Insurance Bhd	2 storey shophouse located at 1&1A, Jalan SG 10/4, Sri Gombak, 68100 Batu Caves, Selangor Darul Ehsan.  Held under H.S.(D) No. 12096, P.T. No. 9370, Pekan of Batu, District of Gombak, Selangor Darul Ehsan.	Freehold	19	184.69	415,000	11.10.2005
Jerneh Insurance Bhd	2 storey shophouse located at No. S-135, Taman Intan 3, Jalan Kuantan, 27000 Jerantut, Pahang Darul Makmur.  Held under H.S.(M) 2071, P.T. No. 366/16, Mukim of Pedah, District of Jerantut, Pahang Darul Makmur.	Freehold	16	153.29	256,000	24.11.2005
Jerneh Insurance Bhd	18 storey office building located at 38 Jalan Sultan Ismail, 50250 Kuala Lumpur.  Held under H.S.(D) 83191, P.T. No. 30, Section 57, Town and District of Kuala Lumpur, Federal Territory.	Freehold	18	1,632	42,500,000	14.10.2004
Jerneh Insurance Bhd	2 units of 3 storey office building located at No. 266 & 268, Victoria Street, 10300 Penang.  Held under H.S.(D) Nos. 42,44,45 & 47, Lot Nos. 000675, 000677, 000678 and 000680 Section 23, Town of Georgetown North East District, Penang.	Freehold	33	522.00	2,158,000	24.11.2005

I/We (full name in BLOCK LETTERS) \_\_\_\_\_

of (address) \_\_\_\_\_

being a member(s) of **Jerneh Asia Berhad**, hereby appoint (full name and IC No.) \_\_\_\_\_

of (address) \_\_\_\_\_

or failing him/her, (full name and IC No.) \_\_\_\_\_

of (address) \_\_\_\_\_

and/or failing him/her \*THE CHAIRMAN OF THE MEETING as my/our proxy/proxies to vote for me/us on my/our behalf, at the 10th Annual General Meeting of the Company, to be held on Wednesday, 24th May 2006 at 9.30 a.m. and at any adjournment thereof, as indicated below:

	FOR	AGAINST
<b>Resolution 1</b> To adopt the Directors' Report and Accounts		
<b>Resolution 2</b> To approve the payment of a First and Final Dividend		
<b>Resolution 3</b> To approve an increase in payment of Directors' Fees		
<b>Resolution 4</b> To re-elect Encik Ahmad Riza bin Basir as Director		
<b>Resolution 5</b> To re-elect Mr Graham Hecond Wong as Director		
<b>Resolution 6</b> To re-appoint Moores Rowland as Auditors		
<b>Resolution 7</b> To authorise the Directors to issue and allot shares		
<b>Resolution 8</b> To approve the renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		

(Please indicate with an "X" in the space provided above on how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion)

\* Delete the words "THE CHAIRMAN OF THE MEETING" if you wish to appoint another person to be your proxy.

The proportion of my / our holding to be represented by my / our proxies are as follows :-

	Number of shares
First proxy	
Second proxy	
Total	

Dated this ..... day of ..... 2006.

\_\_\_\_\_  
Signature

NOTES :

- A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies (but not more than two) to attend and vote in his/her stead. A proxy may but need not be a member of the Company. Where a member appoints two proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy.
- The instrument appointing the proxy, in the case of an individual, shall be signed by the appointer, or his attorney duly authorised in writing and in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing the proxy, must be deposited at the Registered Office of the Company at 18th Floor, Wisma Jerneh, 38, Jalan Sultan Ismail, 50250 Kuala Lumpur, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

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affix  
stamp

The Company Secretary

**JERNEH ASIA BERHAD** (363984-X)

18th Floor, Wisma Jerneh

38 Jalan Sultan Ismail

50250 Kuala Lumpur

please fold here

**Jerneh Asia Berhad**  
(363984-X)

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