



HOME



PERSONAL ACCIDENT



MEDICAL



■ ANNUAL REPORT 2006

■  **KURNIA ASIA BERHAD**

VISION STATEMENT

To be a leading financial services group in the ASEAN region



MISSION STATEMENT

To expand regionally into neighboring countries and become a leading insurer in the ASEAN region

To provide quality services to customers

To generate reasonable returns to shareholders consistently

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the FIFTH ANNUAL GENERAL MEETING of Kurnia Asia Berhad will be held at 9th Floor, Training Room, Menara Kurnia, Block B4, Leisure Commerce Square, No. 9 Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan on Friday, 15 December 2006 at 10.00 a.m. to transact the following businesses:-

AGENDA

ORDINARY BUSINESS

1. To receive the Directors' Report and Audited Accounts for the year ended 30 June 2006 together with the Auditors' Report thereon. [Resolution 1](#)
2. To re-elect the following Directors who retire by rotation pursuant to Article 117 of the Company's Articles of Association:-
 - (a) Tan Sri Kua Sian Kooi [Resolution 2](#)
 - (b) Dato' Low Heong Chow @ Loh Heong Chow [Resolution 3](#)
3. To re-elect Leow Ming Fong @ Leow Min Fong as Director who retires pursuant to Article 108 of the Company's Articles of Association. [Resolution 4](#)
4. To re-appoint Messrs. KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. [Resolution 5](#)

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass the following as Ordinary Resolutions:

ORDINARY RESOLUTION AUTHORITY TO ISSUE SHARES

[Resolution 6](#)

"THAT subject always to the Companies Act, 1965 ("the Act") and the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby authorised pursuant to Section 132D of the Act to issue shares in the Company at any time until the conclusion of the next Annual General Meeting upon such terms and conditions and for such purposes that the Directors may in their absolute discretion deem fit provided that the aggregate number of shares to be issued pursuant to this Resolution does not exceed 10% of the issued share capital of the Company for the time being."

**ORDINARY RESOLUTION
PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY****Resolution 7**

"THAT subject to the Companies Act, 1965 ("the Act"), provisions of the Company's Memorandum and Articles of Association and the requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant authorities, and other relevant approvals, the Directors of the Company be and are hereby authorised to purchase its own shares through Bursa Securities, subject to the following:-

- (a) The maximum number of shares which may be purchased by the Company shall not exceed ten per centum (10%) of the issued and paid-up ordinary share capital of the Company at any point in time;
- (b) The maximum fund to be allocated by the Company for the purpose of purchasing its shares shall not exceed the retained profits and share premium accounts of the Company. As at the latest financial year ended 30 June 2006, the audited retained profits and share premium accounts of the Company stood at RM4,018,000 and RM12,578,000 respectively.
- (c) The authority conferred by this resolution will be effective upon passing of this resolution and will continue in force until:-
 - (i) the conclusion of the next Annual General Meeting ("AGM") at which time the said authority will lapse, unless by an ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
 - (ii) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
 - (iii) revoked or varied by an ordinary resolution passed by the shareholders in a general meeting;
 whichever occurs first;
- (d) Upon completion of the purchase(s) of the shares by the Company, the shares shall be dealt with in the following manner:-
 - (i) cancel the shares so purchased;
 - (ii) retain the shares so purchased as treasury shares;
 - (iii) distribute the treasury shares as dividends to shareholders;
 - (iv) resell the treasury shares on Bursa Securities in accordance with the relevant rules of Bursa Securities; and
 - (v) any combination of the above (i), (ii), (iii) and (iv).

THAT the Directors of the Company be and are hereby authorised to take all such steps as are necessary and entering into all other agreements, arrangements and guarantees with any party or parties to implement, finalise and give full effect to the aforesaid purchase with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities from time to time to implement or to effect the purchase of its own shares."

6. To transact any other business for which due notice has been given.

Explanatory notes on Special Business:Ordinary Resolution 6

The proposed Ordinary Resolution, if passed, will empower the Directors of the Company to issue and allot not more than 10% of the issued share capital of the Company subject to the approvals of all the relevant governmental and/or other regulatory bodies and for such purposes as the Directors consider would be in the interest of the Company. This authorisation will, unless revoked or varied by the Company in a general meeting, expire at the next Annual General Meeting of the Company.

Ordinary Resolution 7

The proposed Ordinary Resolution 7, if passed, will empower the Directors of the Company to purchase the Company's shares up to ten percent (10%) of the issued and paid-up share capital of the Company ("Proposed Share Buy-Back") by utilizing the funds allocated which shall not exceed the total retained earnings and share premium account of the Company. Further information on the Proposed Share Buy-Back is set out in the Circular to Shareholders dated 23 November 2006, which is despatched together with Company's Annual Report 2006.

BY ORDER OF THE BOARD

CHUNG PEI PEI
SEOW FEI SAN
Secretaries

PETALING JAYA
23 November 2006

Note:

A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company. In the case of a corporation, the instrument appointing the proxy must be under the hand of its officer or attorney duly authorised in writing.

The instrument appointing a proxy together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited with the Company Secretary at the Registered Office of the Company at 25th Floor, Menara Kurnia, Block B4, Pusat Dagang Setia Jaya (Leisure Commerce Square), No. 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan, not less than forty eight (48) hours before the time for holding the meeting or any adjournment thereof.

STATEMENT ACCOMPANYING NOTICE OF Fifth Annual General Meeting

(Pursuant to paragraph 8.28(2) of the Bursa Malaysia Securities Berhad's Listing Requirements)

1. Board meeting held during the financial year ended 30 June 2006

A total of 5 Board meetings were held during the financial period 1 July 2005 to 30 June 2006.

2. Details of Directors' attendance at the Board meetings

Details of Directors' Attendance at the Board Meetings held during the financial year ended 30 June 2006 are set out in the Directors' Profile which appear from page 12 to page 14 of the Annual Report.

3. Directors who are standing for re-election and re-appointment at the Fifth Annual General Meeting of the Company

Directors retiring by rotation pursuant to Article 117 of the Company's Articles of Association and seeking for re-election are:-

- (a) Tan Sri Kua Sian Kooi
- (b) Dato' Low Heong Chow @ Loh Heong Chow

Director retiring pursuant to Article 108 of the Company's Articles of Association and seeking for re-election is:-
Leow Ming Fong @ Leow Min Fong

The details of the above three Directors seeking re-election are set out in the Directors' Profile which appear from page 12 to page 14 of the Annual Report. Their shareholdings in the Company are set out in the Directors Shareholdings on page 95 of this Annual Report.

4. The Fifth Annual General Meeting of the Company will be held as follows:-

Date & Time : Friday, 15 December 2006 at 10.00 a.m.

Place : 9th Floor, Training Room, Menara Kurnia, Block B4, Leisure Commerce Square,
No. 9 Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan.



TEAMWORK & NETWORK

The engine of growth is fuelled by the strength of many. We work together, sharing ideas towards unlimited possibilities and new dimensions.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Kua Sian Kooi	[Executive Chairman/ Non-Independent Executive Director]
Datuk Kua Chung Sen	[Deputy Executive Chairman/ Non-Independent Executive Director]
Dato' Low Heong Chow @ Loh Heong Chow	[Managing Director / CEO / Non Independent Executive Director]
Dato' Othman Bin Abdul	[Non-Independent Non-Executive Director]
Dato' Quah Teong Moo	[Non-Independent Non-Executive Director]
Dato' Yeoh Cheng Hooi	[Independent Non-Executive Director]
Leow Ming Fong @ Leow Min Fong	[Independent Non-Executive Director]
Datuk Mohd Saufi Bin Abdullah	[Independent Non-Executive Director]

AUDIT COMMITTEE

Leow Ming Fong @ Leow Min Fong	[Chairman]
Datuk Kua Chung Sen	[Member]
Dato' Yeoh Cheng Hooi	[Member]
Datuk Mohd Saufi Bin Abdullah	[Member]

COMPANY SECRETARY

Chung Pei Pei (F) (MAICSA 7014594)
Seow Fei San (F) (MAICSA 7009732)

REGISTERED OFFICE

Kurnia Asia Berhad
25th Floor, Menara Kurnia, Block B4
Pusat Dagang Setia Jaya (Leisure Commerce Square)
No. 9, Jalan PJS 8/9
46150 Petaling Jaya, Selangor Darul Ehsan
Tel : 03-7874 6622 **Fax** : 03-7874 8686
E-mail : kab@kurnia.com
Website: www.kurnia.com

PRINCIPAL BANKER

Malayan Banking Berhad
Bandar Sunway Branch
No. 31-32, Jalan PJS 11/28A
Bandar Sunway, 46150 Petaling Jaya
Tel : 03-5637 0871 **Fax** : 03-5637 0869

AUDITORS

KPMG (Firm No. AF0758)
Chartered Accountants
Wisma KPMG, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur
Tel : 03-2095 3388 **Fax** : 03-2095 0971

REPORTING ACCOUNTANTS

KPMG (Firm No. AF0758)
Chartered Accountants
Wisma KPMG, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur
Tel : 03-2095 3388 **Fax** : 03-2095 0971

REGISTRAR

Symphony Share Registrars Sdn Bhd
(formerly known as Malaysian Share Registration Services Sdn Bhd)
Level 26, Menara Multi-Purpose, Capital Square
No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur
Tel : 03-2721 2222 **Fax** : 03-2721 2530/03-2721 2531



CORPORATE MILESTONES

KURNIA ASIA BERHAD

- 2001 Incorporated as Kurnia Asia Sdn Bhd
- 2002 Assumed present name as Kurnia Asia Berhad
- 2004 Acquisition of Kurnia Insurans (Malaysia) Berhad;
Formation of Kurnia Asia Berhad's Group
- 2005 Listing on the Main Board of Bursa Securities (KURASIA 5097);
Inclusion in the MSCI Malaysia Index
Inclusion in the Kuala Lumpur Composite Index (KLCI)
- 2006 Declaration of Interim Dividend of 36.11% or 9.027 sen per share for Financial Year Ended 30 June 2006

KURNIA INSURANS (MALAYSIA) BERHAD

- 1978 Incorporated as Industrial & Commercial Insurance (M) Bhd
- 1991 Assumed present name as Kurnia Insurans (Malaysia) Berhad
- 1993 Gross premium surpassed RM200 million
- 1995 Total assets surpassed RM500 million
- 1996 Pre-tax profit surpassed RM100 million; Attained MS ISO 9002
- 1997 Gross premium surpassed RM500 million
- 1998 Paid-up capital increased to RM100 million
- 1999 Total assets surpassed RM1 billion;
"A" rating for Claims Paying Ability by MARC
- 2000 Launch of Kurnia Auto Assist (KAA)
- 2001 Paid-up capital increased to RM200 million;
Corporate Head Office moved to the 25-storey Menara Kurnia
- 2002 "A" Rating for General Insurance Financial Strength,
accredited by MARC;
Attained MS ISO 9001:2000
- 2003 Total assets surpassed RM1.5 billion;
Launch of Kurnia Express (KE)
- 2004 Gross premium surpassed RM1 billion;
"A+" Rating for General Insurance Financial Strength,
upgraded by MARC;
Launch of MediGuard and MediGuard Express
- 2006 "A+" Rating for General Insurance Financial Strength,
re-affirmed by MARC
Launch of two new divisions- Property & Casualty (P&C)
Division and Motor Division

BRANCH NETWORK



KURNIA ASIA BERHAD (539435-K)

25th Floor, Menara Kurnia, No. 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan, Malaysia

Tel : 03-7877 6622
Fax : 03-7874 8646
E-mail : kab@kurnia.com
Website : www.kurnia.com

KURNIA INSURANS (MALAYSIA) BERHAD (44191-P)

Menara Kurnia, No. 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan, Malaysia

Tel : 03-7875 3333
Fax : 03-7875 9933
E-mail : corporate@kurnia.com
Website : www.kurnia.com.my

MAIN BRANCH

Menara Kurnia
No. 9, Jalan PJS 8/9
46150 Petaling Jaya, Selangor
Tel : 03-7875 3333
Fax : 03-7875 9933
Branch Manager : Yap Kim Mei

ALOR SETAR

Wisma Kurnia
18, Lebuhraya Darul Aman
05100 Alor Setar, Kedah
Tel : 04-733 9888
Fax : 04-730 5888
Branch Manager : Ang Lee Joo

BATU PAHAT

12, 12A & 12B, Jalan Maju Barat
Taman Maju
83000 Batu Pahat, Johor
Tel : 07-432 6333
Fax : 07-432 3522
Branch Manager : Lee Boon Chai

BUTTERWORTH

8, Jalan Todak 1
Pusat Bandar Sunway
13700 Seberang Jaya
Butterworth, Penang
Tel : 04-397 3888
Fax : 04-397 8362
Branch Manager : Woon Sock Hooi

IPOH

16 & 18, Persiaran Greentown 6
Pusat Perdagangan Greentown
30450 Ipoh, Perak
Tel : 05-255 2846
Fax : 05-241 3937
Branch Manager :
Balasubramaniam A/L Manickam

JOHOR BAHRU

12-16, Jalan Padi Satu
Bandar Baru Uda
81200 Johor Bahru, Johor
Tel : 07-238 3328
Fax : 07-238 3731
Branch Manager : Ang Teck Boh

JOHOR JAYA

110, Jalan Ros Merah 2/17
Taman Johor Jaya
81100 Johor Bahru, Johor
Tel : 07-353 7233
Fax : 07-357 0233
Branch Manager : Chan Jaw Ran

KAJANG

31, Jalan Ria Satu (1)
Kawasan Perindustrian Ria
Off Jalan Semenyih
43000 Kajang, Selangor
Tel : 03-8733 8118
Fax : 03-8734 3737
Branch Manager :
A Sockanathan A/L S Alagappan

KANGAR

58, Tingkat Bawah, Bangunan MCA
Jalan Penjara, Medan Syed Alwi
01000 Kangar, Perlis
Tel : 04-976 4226
Fax : 04-976 8914
Branch Manager : Saw Lee Sun

KEPONG

4, Jalan Prima 5
Pusat Niaga Metro Prima
52100 Kuala Lumpur
Wilayah Persekutuan
Tel : 03-6257 8301
Fax : 03-6257 8251
Branch Manager : Lim Teck Seng

KLANG

27, Jalan Tiara 3, Bandar Baru Klang
41150 Klang, Selangor
Tel : 03-3342 8333
Fax : 03-3344 9775
Branch Manager : Ling Hieng Ping

KLUANG

8, Jalan Persiaran Yayasan
86000 Kluang, Johor
Tel : 07-773 8000
Fax : 07-772 2558
Branch Manager : Liong Tim Kuan

KOTA BHARU

Lot 358 & 359, Seksyen 27
Jalan Sri Cemerlang
15300 Kota Bharu
Kelantan
Tel : 09-748 1033
Fax : 09-744 9633
Branch Manager : Lee Yook Un

KOTA KINABALU

Lot 47, Bandaran Berjaya
Jalan Padang
88000 Kota Kinabalu
Tel : 088-232 200
Fax : 088-232 204
Branch Manager : Ng Pick Yeng

KUALA TERENGGANU

26, Jalan Sultan Mahmud
20400 Kuala Terengganu
Terengganu
Tel : 09-624 6561
Fax : 09-624 6531
Branch Manager : Aminuddin Suharto
Bin Dato' Hj. Zakaria

KUANTAN

B-344, Jalan Beserah
25300 Kuantan, Pahang
Tel : 09-566 4527
Fax : 09-566 1164
Branch Manager : Lee Geok Chee

KUCHING

246 & 247
Jalan Datuk Wee Kheng Chiang
93450 Kuching, Sarawak
Tel : 082-247 288
Fax : 082-250 611
Branch Manager :
Eric Chong Chung Ping

MELAKA

162, Jalan Taman Melaka Raya
75000 Melaka
Tel : 06-283 0928
Fax : 06-282 2707
Branch Manager : Gary Mok Kong Yew

MIRI

Lot 665, Jalan Permaisuri
98000 Miri, Sarawak
Tel : 085-420 102
Fax : 085-420 924
Branch Manager : Sim Yu Hieng

PENANG

2F, Lorong Selamat
10400 Penang
Tel : 04-228 4473
Fax : 04-229 9921
Branch Manager : Chong Ving Choong

SEGAMAT

55, Jalan Genuang Kampung
85000 Segamat,
Johor
Tel : 07-932 1299
Fax : 07-932 8551
Branch Manager : Kua Kian Guan

SELANGOR

Wisma Kurnia
149-151, Jalan Maharajalela
50150 Kuala Lumpur
Wilayah Persekutuan
Tel : 03-2148 1500
Fax : 03-2142 1446
Branch Manager : Tham Kin Yap

SEREMBAN

32, Beta Ria Business Centre
Jalan Durian Emas 4
Off Jalan Dato' Siamang Gagap
70100 Seremban
Negeri Sembilan
Tel : 06-767 0333
Fax : 06-767 2487
Branch Manager : Ku Boon Liang

SIBU

16-E, 1st Floor
Lane 4, Jalan Lanang
96000 Sibu
Sarawak
Tel : 084-348 333
Fax : 084-317 766
Branch Manager : Chai Mui Chin

SITIAWAN

11 (Ground & 1st Floor)
Taman Sentosa Dua
Jalan Lumut
32000 Sitiawan,
Perak
Tel : 05-691 9333
Fax : 05-691 1333
Branch Manager : Lim Eng Choon

SUNGAI PETANI

9, Jalan Cempaka 1/1
Bandar Aman Jaya
08000 Sungai Petani
Kedah
Tel : 04-442 8333
Fax : 04-442 8212
Branch Manager : Khor Chew Hong

TAIPING

408, Taman Saujana
Jalan Kamunting
34600 Kamunting
Taiping
Perak
Tel : 05-808 6333
Fax : 05-808 3223
Branch Manager : Tang Mung San

TAWAU

TB311, 1st Floor
Block 36, Fajar Complex
Jalan Haji Karim
91000 Tawau
Sabah
Tel : 089-762 633
Fax : 089-762 533
Assistant Branch Manager :
Steven Chung Voo Kyau

TEMERLOH

27, Jalan Sudirman 3
Bandar Sri Semantan
28000 Temerloh
Pahang
Tel : 09-296 0933
Fax : 09-296 6933
Branch Manager : Leong Ka Yen

WILAYAH

Bangunan Kurnia
32, Jalan Yap Ah Shak
50300 Kuala Lumpur
Wilayah Persekutuan
Tel : 03-2698 9333
Fax : 03-2698 9933
Branch Manager : Khaw Lai Chuan

FINANCIAL HIGHLIGHTS

KURNIA ASIA BERHAD

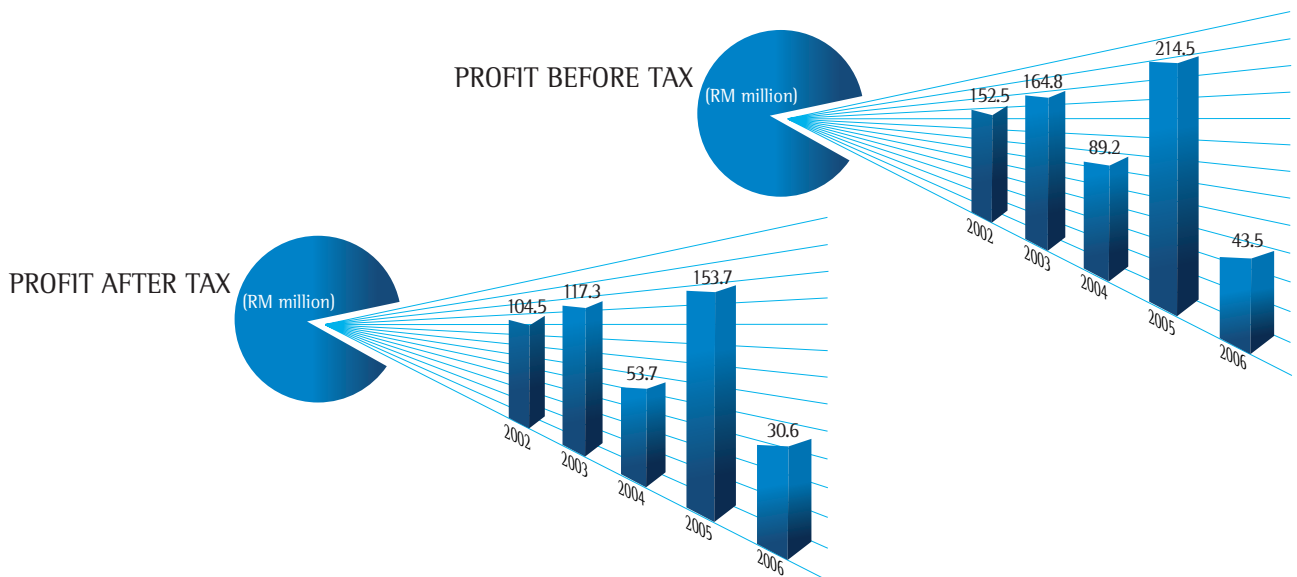
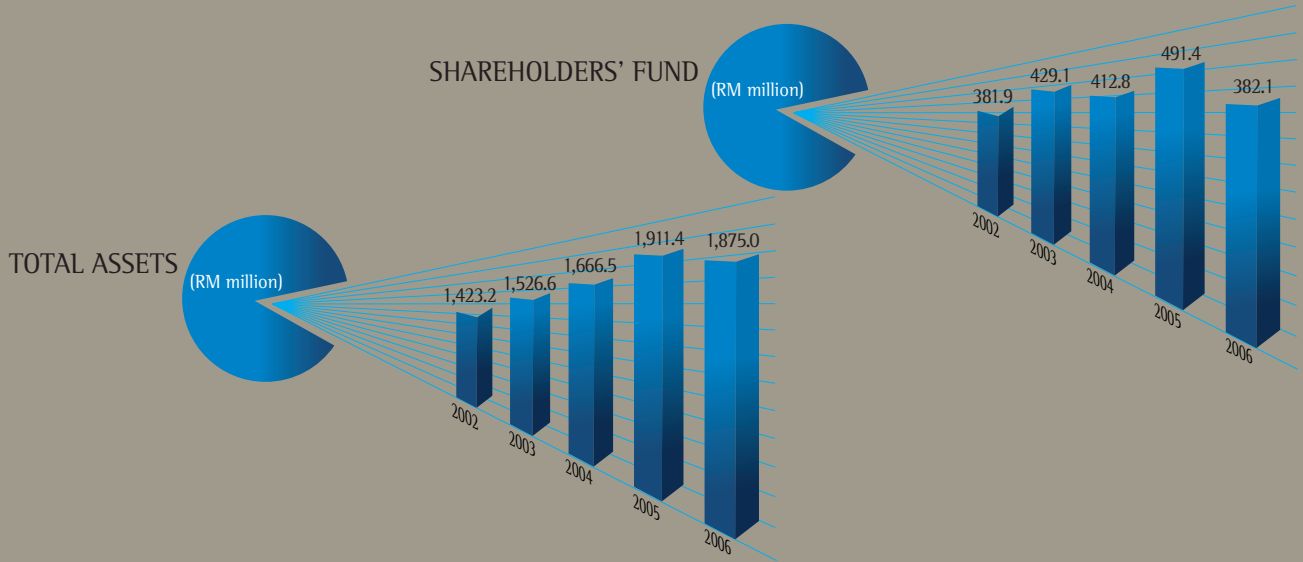
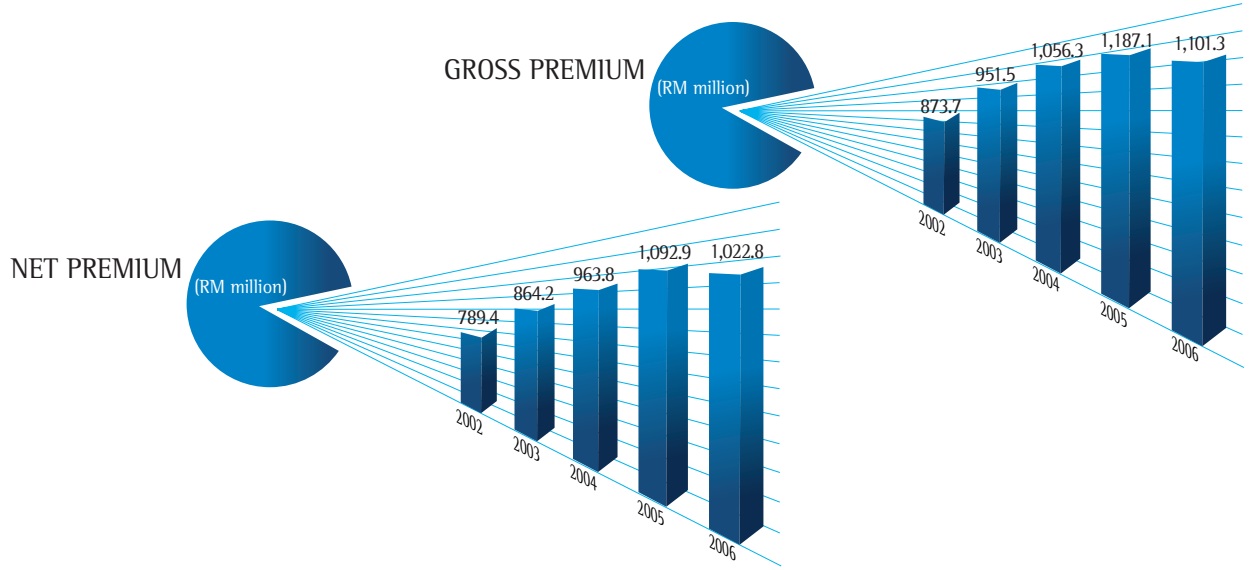
	2005*	2006		2005*	2006
	(RM mil.)	(RM mil.)		(RM mil.)	(RM mil.)
GROSS PREMIUM	808.8	1,101.3	PROFIT BEFORE TAX	145.6	42.7
NET PREMIUM	744.3	1,022.8	PROFIT AFTER TAX	102.3	29.8
EARNED PREMIUM	724.2	1,039.2	TOTAL ASSETS	1,970.9	1,975.9
UNDERWRITING SURPLUS/(DEFICIT)	106.1	(22.5)	TECHNICAL RESERVES	1,334.8	1,420.9
INVESTMENT & OTHER INCOME	39.5	66.0	SHAREHOLDERS' FUND	489.9	422.2

*The Group was formed on 5 November 2004, upon the acquisition of its subsidiary, Kurnia Insurans (Malaysia) Berhad, by the Company. Accordingly, only the post-acquisition portion of the subsidiary's revenue and results have been consolidated and reflected in the Group's income statement.

KURNIA INSURANS (MALAYSIA) BERHAD

FINANCIAL YEAR ENDED 30 JUNE	2002	2003	2004	2005	2006
	(RM mil.)	(RM mil.)	(RM mil.)	(RM mil.)	(RM mil.)
GROSS PREMIUM	873.7	951.5	1,056.3	1,187.1	1,101.3
NET PREMIUM	789.4	864.2	963.8	1,092.9	1,022.8
EARNED PREMIUM	730.7	836.9	898.1	1,055.0	1,039.2
UNDERWRITING SURPLUS/(DEFICIT)	74.2	103.6	30.9	159.5	(22.5)
INVESTMENT & OTHER INCOME	79.9	62.6	89.3	55.0	66.0
PROFIT BEFORE TAX	152.5	164.8	89.2	214.5	43.5
PROFIT AFTER TAX	104.5	117.3	53.7	153.7	30.6
TOTAL ASSETS	1,423.2	1,526.6	1,666.5	1,911.4	1,875.0
TECHNICAL RESERVES	937.4	1,008.7	1,176.1	1,334.8	1,420.9
SHAREHOLDERS' FUND	381.9	429.1	412.8	491.4	382.1

KURNIA INSURANS (MALAYSIA) BERHAD (CONT'D)



BOARD OF DIRECTORS

Tan Sri Kua Sian Kooi

(Executive Chairman/Non-Independent Executive Director)

Tan Sri Kua Sian Kooi, Malaysian, 54 years of age was appointed as an Executive Director on 12 April 2004 and is currently the Executive Chairman of Kurnia Asia Berhad ("KAB").

Tan Sri Kua is also currently a Director of Kurnia Insurans (Malaysia) Bhd ("KIMB"), a subsidiary of KAB, which underwrites general insurance. He has over 30 years of experience in this industry. His vast insurance experience was obtained from his direct involvement as an insurance agent, as well as an insurance underwriter and in the later years as the director and chairman of KIMB, the subsidiary of KAB. Through determination and diligence, he engineered the transformation of KIMB into the indisputable leader of the general insurance industry in Malaysia, whether measured in terms of profits, policyholders, premiums or assets.

Tan Sri Kua has attended all of the five (5) Board meetings held during the financial period. Save for Datuk Kua Chung Sen and Dato' Quah Teong Moo, who are his brothers, he has no other relationships with any Directors of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Datuk Kua Chung Sen

(Deputy Executive Chairman/Non-Independent Executive Director)

Datuk Kua Chung Sen, Malaysian, 46 years of age was appointed as an Executive Director of KAB on 12 April 2004. He is currently the Deputy Executive Chairman of KAB and also serves as a member of the Audit and Remuneration Committee.

Together with Tan Sri Kua Sian Kooi, he has served in the top management position of KIMB since 1991 when the present management took over which was then an insolvent insurer, Industrial & Commercial Insurance (M) Bhd. He was also instrumental in turning around the company into the leader in the general insurance industry today. He was responsible for overseeing the establishment and strengthening of the financial and investment division of KIMB in the early years. He also led in the re-engineering of operational procedures of critical processes. Following that, he spearheaded the implementation of ISO procedures, resulting in KIMB being ISO accredited in 1996. He is also very much involved in the strategic direction of the company as well as in ensuring that business strategies are accurately and effectively implemented. Under his guidance, KIMB has strengthened all aspects of its operations.

Datuk Kua has attended all of the five (5) Board meetings held during the financial period. Save for Tan Sri Kua Sian Kooi and Dato' Quah Teong Moo, who are his brothers, he has no other relationships with any Directors of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Dato' Low Heong Chow @ Loh Heong Chow

(Managing Director/CEO/Non-Independent Executive Director)

Dato' Loh Heong Chow, Malaysian, 56 years of age was appointed as the Executive Director of KAB on 12 April 2004.

Dato' Loh is currently the Managing Director and Chief Executive Officer of KAB as well as the director of KIMB. He started his career with an entry-level position as an underwriter with People Insurance Co. (M) Sdn Bhd and thereafter from 1979 to 1982 he was the Deputy General Manager for South East Asia Insurance Berhad. He held various senior management position within the Hong Leong Group including the Principal Officer/ Managing Director of Hong Leong Assurance Berhad and Group Managing Director of Hong Leong group of companies in Malaysia, a position he held until April 1997. He was previously the Managing Director and Chief Executive Officer of KIMB and under his stewardship, KIMB progressed tremendously in terms of performance, business portfolio and public awareness. He is a Fellow of the Chartered Insurance Institute, the Federation Institute of Insurance and the Malaysian Insurance Institute. He graduated with B. Econs. (Honours) degree from University of Malaya in 1974 and obtained his MBA from IMD (Switzerland) in 1983.

Dato' Loh has attended all of the five (5) Board meetings held during the financial period. He has no family relationship with any Director and/or major shareholder of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Dato' Othman Bin Abdul

(Non-Independent Non-Executive Director)

Dato' Othman bin Abdul, Malaysian, 55 years of age was appointed Non-Independent Non-Executive Director of KAB on 13 April 2004. He is currently the Chairman of KIMB, a subsidiary of KAB.

Dato' Othman is an alumnus of University Kebangsaan Malaysia, majoring in sociology. Upon graduation in 1978, he served with the Family Planning Board and subsequently with the Kedah State Development Corporation. From 1980 to 1983, he was the Pendang Assistant District Officer. Subsequently, he became involved in politics and has 10 years of experience as a Parliamentary Secretary in the Prime Minister's Department.

Dato' Othman has attended all of the five (5) Board meetings held during the financial period. He has no family relationship with any Director and/or major shareholder of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Dato' Yeoh Cheng Hooi

(Independent Non-Executive Director)

Dato' Yeoh Cheng Hooi, Malaysian, 61 years of age was appointed Independent Non-Executive Director of KAB on 12 April 2004. He is the Chairman of the Nominating Committee and Remuneration Committee and a member of the Audit Committee.

Dato' Yeoh has more than 30 years of experience in the insurance industry, starting his career as a manager with American International Underwriter Limited in 1971. Subsequently he joined Brenald Beard Sdn Bhd before venturing on his own as an insurance agent. He is currently involved in investment, property holding and property development businesses comprising mainly of development projects located in the northern region of Peninsular Malaysia.

Dato' Yeoh has attended but one (1) out of the five (5) Board meetings held during the financial period. He has no family relationship with any Director and/or major shareholder of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Dato' Quah Teong Moo

(Non-Independent Non-Executive Director)

Dato' Quah Teong Moo, Malaysian, 51 years of age was appointed Non-Independent Non-Executive Director of KAB on 29 June 2004.

Dato' Quah is currently the Executive Director of KIMB. He started his career with KIMB as an entry-level executive, and has been steadily promoted through the ranks to his current position. During this period, he has accumulated vast marketing experience and an in-depth knowledge of the general insurance industry in Malaysia. He has also established a very strong rapport with KIMB's agency base and enjoys close business and working relationships with all staff, agents and business associates.

Dato' Quah has attended all of the five (5) Board meetings held during the financial period. Save for Tan Sri Kua Sian Kooi and Datuk Kua Chung Sen, who are his brothers, he has no other relationships with any Directors of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Datuk Mohd Saufi Bin Abdullah

(Independent Non-Executive Director)

Datuk Mohd Saufi Bin Abdullah, Malaysian, 68 years of age was appointed Independent Non-Executive Director of KAB on 21 December 2004. He is a member of the Audit, Remuneration and Nominating Committee.

Datuk Mohd Saufi holds a Bachelor of Arts (Hons.) degree from University of Malaya and Master of Science in Business Administration from the London Business School. He began his career with the Government of Malaysia in the diplomatic service between 1962 to 1964. Subsequently, he went on to be involved in the state, district and local government administration in the State of Melaka from 1964 to 1968. From 1968 to 1970, he was the Principal Assistant Secretary at the Federal Treasury (now Ministry of Finance) until he was called upon to be the Coordinator of the Pahang Tenggara Regional Master-planning Study. On completion of the master-plan by a multidisciplinary international team he was selected to head the newly formed Pahang Tenggara Development Authority (DARA) as its first General Manager. He led the organization for more than five years until he was awarded a post-graduate scholarship to study at the London Business School (LBS) in 1977.

On returning to Malaysia in 1979 he was posted to the Ministry of Defence as the Deputy Secretary General. In 1981, he was seconded by the Government to The Heavy Industries Corporation of Malaysia Berhad (subsequently renamed to Hicom Holdings Berhad on being listed) as the first Executive Director. He was subsequently redesignated as the Vice President and promoted to Senior Vice President in 1993. At the end of 1995 he retired. During the currency of his tenure in HICOM, he was appointed director of most of HICOM's subsidiary and associate companies namely Edaran Otomobil Nasional Berhad (EON), Perusahaan Otomobil Nasional Berhad (PROTON), Kedah Cement Holdings Berhad, Uniphonex Corporation Berhad and Mechmar Corporation Berhad. His other directorship in a public listed company is AMDB Berhad.

Datuk Mohd Saufi has attended all of the five (5) Board meetings held during the financial period. He has no family relationship with any Director and/or major shareholder of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

Leow Ming Fong @ Leow Min Fong

(Independent Non-Executive Director)

Leow Ming Fong @ Leow Min Fong, Malaysian, 56 years of age was appointed Independent Non-Executive Director of KAB on 16 June 2006. He is the Chairman of the Audit Committee.

Leow Min Fong is also currently a Director of KIMB, a subsidiary of KAB, which underwrites general insurance. He brings with him over more than 30 years of experience in the accounting/auditing field, having served as an audit partner and concurring partner for several portfolio of clients including several public listed companies and multinational companies. Upon graduation, he commenced his articleship with a firm of Chartered Accountants in London, United Kingdom. Prior to his appointment with the company, he joined KPMG Malaysia until his retirement as one of the senior audit partners after a period of 32 years. During his KPMG experience, he has been posted to various KPMG branches as audit partner inclusive of short-term assignments in Singapore, British Guinea in South America and Vietnam. He has also acted as partner in charge of KPMG Cambodia for 3 1/2 years from late 1995 to early 1999. In addition, he has been involved in special work for fraud investigation, due diligence for merger and acquisitions, reporting accountant for various corporate exercises for public listed companies.

He is also a member of the Fellow Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants. His other directorships in public listed companies are Karambunai Corporation Bhd, FACB Industries Incorporated Bhd and Petaling Tin Bhd.

He has no family relationship with any Director and/or major shareholder of KAB. He has no conflict of interest with KAB and has no convictions of any offences within the past ten years.

MANAGEMENT TEAM

KURNIA ASIA BERHAD ("KAB")

San Chee Kit

Chief Financial Officer / Senior General Manager

San Chee Kit, 46 years of age, is the Chief Financial Officer of Kurnia Asia Berhad ("KAB") with overall responsibility for the general accounting and investment functions of the Company and the Group. Mr. San is a Chartered Accountant (Malaysia) and Certified Public Accountant, having first qualified as a CPA in 1984. He is a registered member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants (MICPA) respectively. He first joined Kurnia Insurans (Malaysia) Berhad ("KIMB") in May 1997 as Financial Controller after a three-year attachment with the Hong Leong group of companies where he served as the Group Financial Controller for Hong Leong Credit Berhad and also for Hong Leong Assurance Berhad. Prior to the Hong Leong group of companies, he served in various capacities with KPMG, Malaysia for 15 years, including a short stint overseas with KPMG Boston, United States of America where he trained as a bank audit specialist.

Dr. Tee Kim Siong

Head of Operations & Investor Relations / General Manager

Dr. Tee Kim Siong, 34 years of age, is the Head of Operations & Investor Relations of KAB. He is also responsible for KAB's Corporate Communication function. He holds a First Class Bachelor of Engineering (Hons.) Degree from Universiti Teknologi Malaysia and a Ph.D. from the University of Cambridge. Prior to his appointment in Kurnia, he was a Senior Associate (based in Kuala Lumpur and New Jersey, USA) with McKinsey & Company, an international management strategy consulting firm. His experience ranges from corporate strategy to business performance transformation, productivity enhancement, organizational restructuring, talent management, capability building and new business ventures. He is a fellow of the Cambridge Commonwealth Society of the United Kingdom and is also a member of the Institution of Engineers, Malaysia.

Looi Kok Leong

Head of Corporate Finance & Strategy / General Manager

Looi Kok Leong, 38 years of age, is the Head of Corporate Finance & Strategy of KAB. He has more than 15 years of experience in corporate finance, accounting and finance as well as corporate affairs management functions. His previous professional roles include Senior Manager / Head of Corporate Finance Team of a merchant bank, General Manager / Head of Corporate and Finance Department of a Malaysian public-listed company, Director of boutique corporate consultancy practices and Corporate Adviser to various companies. He is also presently an Independent Non-Executive Director and serves as Audit Committee Chairman and Nominations Committee member of the Board of Directors of a Malaysian public-listed company. His academic qualifications and professional affiliations include BEc, MBA, CPA (Aust), CA (M) and CFP. He also holds an Investment Adviser's license issued by the Securities Commission under the Securities Industry Act 1983 in relation to undertaking corporate finance advisory activities.

KURNIA INSURANS (MALAYSIA) BERHAD ("KIMB")

Kong Shu Yin

Chief Executive Officer

Kong Shu Yin, 46 years of age, was appointed to the Board of KIMB on 17 December 2004 and presently, he is the Chief Executive Officer of KIMB. He was previously the General Manager (Central Support) of KIMB. He has more than 20 years of experience in the insurance industry having worked for Jerneh Insurance Co. Sdn Bhd, Hong Leong Assurance Sdn Bhd and Perdana Cigna Insurance Bhd. He joined KIMB in 1997 as an Assistant General Manager before being promoted to General Manager. He currently serves as the Director of ISM Insurance Services Malaysia Bhd. He holds a Bachelor of Engineering (Hons.) degree and was awarded a fellowship by the Chartered Insurance Institute, United Kingdom.

KURNIA INSURANS (MALAYSIA) BERHAD'S MANAGEMENT

Accounts

Dang Mei Yin, Assistant General Manager

Central Marketing & Credit Control

Lim Seng Gee, General Manager

Claims

Khor Choo Hong, Assistant General Manager

Han Chon Mee, Assistant General Manager

Terrenz Lim Ah Looi, Assistant General Manager

Task Force

Khor Liang Hing, General Manager

Sallehuddin B. Dato Ahmad, Deputy General Manager

Mak Fatt Seng, Assistant General Manager

Ahmad Sanusi Bin Abdul, Assistant General Manager

Business Development

Lee Suan Siew, Assistant General Manager

Human Resource / Administration / Quality Assurance

Lee Khim Kee, Deputy General Manager

Information Technology

Lee Wai Kwon, Deputy General Manager

Investment

Pankajkumar A/L Bipinchandra, General Manager

Marketing

Zainal Bin Sehat, Senior General Manager

Kamal Arifin Zakaria, General Manager

Capt. (R) Zainuddin Bin Karim, General Manager

Hardyal Singh A/L Saudah Singh, General Manager

Chow Wey Ming, General Manager

Maaruppuddin Jamaluddin, Assistant General Manager

Lew Kot Kua, Assistant General Manager

Ong Sow Ming, Assistant General Manager

Underwriting

Pan Wei Cheong, General Manager

Kok Yoke Foong, Assistant General Manager

Internal Audit

Steven Tan Teow Wan, Senior Manager

Kurnia Auto Assist

Lee Chew Lim, Senior Manager

Research & Development

Caryne Ng Kar Lai, Senior Manager

Norazman Bin Munasib, Senior Manager

Regional Heads

Johor – Mukthi Bin Abdullah, Senior Manager

Kedah & Perlis – Kuat Gu Liang, Assistant General Manager

Klang – Tan Meow Keong, Senior Manager

Kuantan – Yap Beng San, Senior Manager

Main Branch – Ann Chong Heng, Assistant General Manager

Negeri Sembilan & Melaka – C. Nirmalan A/L K M Chinniah, Senior Manager

Perak – Neoh Kok Teong, Senior Manager

Penang & Butterworth – Kua Hock Lai, Senior Manager

Selangor – Low Eng Chuan, Senior Manager

Wilayah – Khaw Lai Chuan, Senior Manager

Sabah State Head – Chong Vui Bin, Manager



Growth

Global perspectives together with a structured approach to quality, continuous improvement and value added product development ensure our vision of tomorrow turn into prominent milestones.

CHAIRMAN'S STATEMENT

Tan Sri Kua Sian Kooi - Executive Chairman

It is my pleasure to present the Annual Report and Audited Financial Statements of Kurnia Asia Berhad for the financial year ended 30 June 2006.

Financial Review for the Year Ended 30 June 2006



From a humble beginning in 1991, Kurnia Asia Berhad (KAB) has been growing and outperforming the industry over the years. KAB recorded a profit after tax of RM29.8 million for the year ended 30 June 2006. The results were not comparable to the results of the preceding year, which consisted only the post-acquisition results of KIMB effective from 5 November 2004.

For the third consecutive year, Kurnia Insurans Malaysia Berhad (KIMB), KAB's principal subsidiary, was able to maintain its record as the only general insurance company in Malaysia to achieve a gross premium income in excess of RM1 billion. In the challenging operating environment this year, there was a conscientious effort by KIMB's management to streamline its underwriting portfolio to enhance profitability over a longer period,

which resulted in a drop in gross premium income from RM1,187.1 million for the year ended 30 June 2005 to RM1,101.3 million for the year ended 30 June 2006. Total assets, which saw positive growth for the past 15 years, increased slightly from RM1.911 billion as at 30 June 2005 to RM1.976 billion as at 30 June 2006. Nevertheless, the company remained well ahead of its competitors with a higher share in the general insurance market based on net premium from 16.9% in 2004 to 18.0% in 2005, amidst the tougher market conditions.

In August 2005, KAB paid a gross interim dividend of 9.027 sen for each share of RM0.25, which resulted in a net dividend of 6.5 sen per KAB share. These stood as a testimony of KAB's commitment to provide reasonable returns to its shareholders and KAB's adherence to a steady dividend payout policy of between 40-60% of its net earnings.

Plans for Growth



Through KIMB, KAB took proactive measures over the past year to extend its strength in motor insurance to non-motor segments by embarking on a rigorous portfolio diversification plan. In May 2006, KIMB's operations were restructured into two divisions, namely the Motor Division and the Property & Casualty Division. The management believed that the restructuring is timely as it will drive the company towards higher growth, especially in strengthening the Property and Casualty Division, which possesses the potential to grow into a billion Ringgit business similar to Kurnia's motor business. A research and development team has also been put together to introduce a series of new personal-line products, such as personal accident, medical and extended warranty covers, which are currently in the pipeline. BizGuard, a business-oriented product that was introduced during the year under review, is designed to cater for small-to-medium businesses. The company also focuses on increasing the number of comprehensive motor policies to increase the motor gross premium.

Manpower Repositioning

Kurnia has always placed high priority on the enrichment of its human capital. During the year under review, deliberate actions were taken to place the management team at the forefront so that each market region received direct management attention from the company's management. At the same time, various working committees were set up to enable a more focused and effective management. This year also saw the inauguration of specially devised programs to bring in the brightest minds into the company, through formalized management trainee and summer internship programs, with the hope to discover and develop future Kurnia leaders. In the meantime, development programs are on-going to empower the agency and staff force. In addition, agency, technical and product trainings, workshops, dialogue sessions as well as executive development courses were carried out to ensure that all staff and agents are fully capable in capturing a bigger market share.

Investment

Kurnia's key direction in portfolio diversification extended to its investment function, where the company has been actively rebalancing its investment portfolio by shifting more liquid assets into higher yielding fixed income investments while maintaining a strict policy on capital preservation. Kurnia also imposed strict requirements on investment instruments to ensure maximum investment returns. A formalized investment committee frequently reviewed investment strategies, while extensive research and company visits were conducted. These were among the essential steps taken to ensure the viability of each instrument before they were pursued.

Distribution Channel



Kurnia also placed great emphasis on its distribution channels to ensure that relevant products reach out effectively to various customer segments. In this light, Kurnia has recruited more agents to add to its comprehensive agency network over the past year. Kurnia will continue to actively explore other avenues of distribution, in particular, to seek strategic collaborations with the right business partners. In the meantime, there will be continuous enhancements to the present distribution channels, especially those which have yet to be fully explored such as bancassurance and franchise holders. Meanwhile, the brokers channel will continue to target Small and Medium Industries (SMI) and corporate clients. Varying its business sources and extending its customer base in a profitable manner have been and still remain as Kurnia's key targets for the coming years. Internationally, the company is in the process of spreading its wings to Indonesia and potentially to other countries as part of the regional expansion plan.

ICT Enhancements

Kurnia will ensure that it is well prepared for the information age. The plan to intensify the usage of Information and Communication Technology (ICT) to enhance efficiency and productivity is already in the implementation stage, where systems such as the electronic Agency Services Center (e-ASC), electronic Marketing Management System (e-MMS), and other e-initiatives, namely the e-Policy and e-Payment are already running live. More new systems and upgrades are in the pipeline in an effort to fully expand the ICT infrastructure.

Achievements

Kurnia is proud to have the "A+" rating for general insurance financial strength re-affirmed for the third consecutive year in March 2006 by Malaysian Rating Corporation (MARC). The recognition reflects Kurnia's position in the general insurance industry as the market leader, with strong market penetration, large distribution network and stringent claims control. This, coupled with the certification of MS ISO 9001:2000 since 2002, acts as an assurance of Kurnia's commitment to excellence in quality. On the corporate front, the inclusion of KAB in Kuala Lumpur Composite Index (KLCI) effective 30 December 2005 is yet another evidence of KAB's strong position as Malaysia's leading general insurance company. This followed KAB's inclusion in the MSCI in June 2005 within only 6 months of Kurnia's listing on the Main Board of Bursa Malaysia.

Outlook and Future Plans



The focus for the coming years is for Kurnia to leverage on its dominant strength in motor insurance into the non-motor segment. The up-coming launch of new products to complement the existing product line by the Property & Casualty Division is among the first step to build Kurnia's image as the General Insurer of Choice.

The Ninth Malaysia Plan laid out by the government spells out the economic agenda for the next five years, which among others, allows for greater flexibility in the insurance industry through progressive deregulations. Liberalization of the market may lead to increased participation from both local and foreign insurance providers, which is expected to result in more intense competition. However, it should not be a worrying concern as deregulation and liberalization is expected to benefit companies with lower claims ratio and massive scale, which Kurnia is currently enjoying. Moreover, the boost in allocation for the construction industry is seen as an impetus for growth as this allows greater market opportunities in construction and engineering risk products.

The National Automotive Policy (NAP), on the other hand, sets out to boost vehicle sales by lowering import tariff to reduce prices, although it has caused adverse short-term sales. Kurnia expects a challenging environment for the year ahead as vehicle sales slowdown, with inflationary pressures exerted to the economy. Nonetheless, Kurnia chooses to remain optimistic as the positive projection of Malaysia's GDP growth will drive its operating income further. Kurnia is confident that the profitability-enhancing policy taken during the year will come into effect in the forthcoming year. Our long-term vision remains intact, that is to remain as the leading player in the region.

Appreciation

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to the management and staff for their commitment and dedication. I would also like to commend my fellow members of the board for their invaluable contributions towards the organization.

My special thanks also go to our agents, business associates, shareholders, investors, reinsurers, financiers and valued policyholders for their confidence in our operations throughout the year. Last but not least, our gratitude goes to Bank Negara Malaysia, PIAM and all relevant statutory authorities for their unwavering support and guidance.

Tan Sri Kua Sian Kooi

Executive Chairman

Kurnia Asia Berhad

23 November 2006

CEO'S OPERATIONAL REVIEW

Dato' Low Heong Chow @ Loh Heong Chow
- Chief Executive Officer / Managing Director

Financial Overview

After 15 years of continuous above-average growth, Kurnia Insurans Malaysia Berhad (KIMB), the principal subsidiary of Kurnia Asia Berhad (KAB), has taken measures to improve profitability in the longer term over revenue growth. Conscious actions taken to improve competitiveness such as stricter credit control and claims management, premium loading on selected high-risk vehicles and reduction in unprofitable business lines have contributed to a softer performance this year. As the management has expected, KIMB recorded a slowdown in gross premium income of RM1,101.3 million in the financial year ended 30 June 2006 compared with RM1,187.1 million in the preceding year. During the year ended 30 June 2006, claims ratio rose by 15.3 percentage points year-on-year to 74.3% due to additional claims reserve and lower gross premium written. Management expenses stood at RM184.8 million for the year ended 30 June 2006, where wider promotional activities and purchase of necessary IT systems resulted in an increase from RM168.2 million recorded in financial year ended 30 June 2005. Overall, the above-mentioned performance contributed to a profit after tax of RM29.8 million for KAB for the financial year under review.

Marketing and Distribution

Kurnia's marketing operation has been streamlined into motor and Property & Casualty (P&C) teams to enhance the effectiveness of marketing effort. P&C marketers have been recruited at branches to expand the existing P&C agency base and to support the existing P&C agents to solicit more non-motor business. During the year, Kurnia launched an advertising campaign to achieve higher visibility and boost the subscription of comprehensive motor policies. The advertisements highlighted the attractiveness of Kurnia Express service, which comes free with comprehensive motor insurance policy alongside another Kurnia's value-added service, Kurnia Auto Assist.

Mutually beneficial partnerships were formed to further strengthen Kurnia's market share, especially in widening the market-base for non-motor products. Kurnia forged a strategic alliance with Kenanga Business Access, who as a corporate agent, will offer Kurnia's Medical Health Insurance products to their corporate clients. Kurnia also seized the opportunity to promote its Travel Insurance products by collaborating with Malaysian Inbound Tourist Association (MITA) to offer insurance coverage for inbound tourists to Malaysia. This effectively acts as the company's contribution to the Malaysian tourism industry.

Besides seeking strategic collaborations with prominent organizations, Kurnia also strives to enhance and further develop the company's agents as the primary distribution channel. Visitations were made by key management personnel to agents' offices with the key objective of strengthening Kurnia's marketing initiatives towards incremental growth. This acts as a two-way interaction and support platform between the company and the valued agency force. Agency activities were organized from time to time, such as agency dinners, festive celebrations and family days, to build rapport and affinity with agents and business partners to secure stronger business support. The Million Ringgit Producer's (MRP) club also provided an additional incentive for agents to boost their yearly performance.

ICT and e-Commerce

Kurnia has implemented various e-initiatives with the objective to increase efficiency and productivity. The introduction of the electronic Agency Services Center (e-ASC) serves as a support tool for agents to ensure more effective agency management. The e-Cover Note, e-Policy and e-Payment systems introduced in 2005 have been successful in streamlining business operations by utilizing Information and Communication Technology (ICT) to enable more efficient use of manpower. Kurnia is currently in the process of migrating existing systems to web-based applications for a more updated and user-friendly environment. In the meantime, the company expects to witness more enhanced systems launched in the future, in an effort to fully develop the IT infrastructure.

Investment

Investment activities complement the underwriting performance of KIMB. The strategy to enhance investment returns by reinforcing the investment department has shown positive signs with better annualized investment yield, increasing from 3.99% for the year ended 30 June 2005 to 4.33% for the year ended 30 June 2006. Apart from the effectiveness of extensive research adopted, the improved investment returns were attributed to the rising trend in interest rates through the large investment portfolio held in interest-bearing instruments. The current investment portfolio is close to the management's target of balanced weightings, which adheres to Kurnia's policy of capital preservation.

Human Resource Developments

Kurnia recognizes that a successful business is not built by a single person, but by a group of people. In tandem with this belief, various programs have been organized by the Human Resource Development department, which is dedicated to keep staff on the upbeat. Training programs have been arranged to target both agents and staff to enhance their technical skills and knowledge. For instance, the Creative & Rational Problem-Solving & Decision Making Process Skills (CRDMP) workshop was organized to build the branch managers' development path. The workshop introduced basic CRDMP concepts and methodologies, which can be internalized to work on real-life business issues. Besides, there are also training programs held monthly at branches or the head office such as medical product trainings, loss surveyors training and strategic thinking workshops. A recruitment drive for the Property & Casualty Division, where some positions were advertised in the media, was part of the plan to expand and enrich the division with bright talents. A recruitment team also embarked on a journey to the United Kingdom to visit top universities and participate in a Career Fair held in London, in a quest to recruit the brightest Malaysian graduates and students to join the Management Trainee Program and Kurnia Internship Program. The setting up of a Senior Management Committee (SMC), and the restructuring of regional heads and claims department have also given Kurnia a fresh outlook and a new organizational approach for future growth.

Corporate Social Responsibility

Throughout Kurnia's ventures, the company continues to place emphasis on social obligations in synchrony with the company's economic pursuits. Kurnia has contributed RM20,000 to the Monfort Girls Centre and organized events such as DeepaRaya Celebrations and donation drives to help orphanages around Malaysia. Kurnia also supports sports and health efforts by sponsoring RM500,000 for the 11th Sukan Malaysia 2006 (SUKMA XI) in Kedah. Kurnia's commitment to Corporate Social Responsibility (CSR) is not limited to solo efforts, as demonstrated by various joint-initiatives with other parties such as the police and fire departments, the Ministry of Human Resources and World Wildlife Fund (WWF) in their respective projects. Kurnia was also actively involved in the Anti-Crime Campaign in collaboration with Sin Chew Jit Poh.

Appreciation

To conclude the review, I would like to commend the directors, the management team, staff and agents for their hard work and dedication throughout the year. My utmost appreciation also goes to our business partners, shareholders and customers for their continuous support for Kurnia. We will not be resting on our laurels and will continuously strive to explore new and innovative ideas to march towards a better performance in the coming year.

Dato' Low Heong Chow @ Loh Heong Chow

Chief Executive Officer / Managing Director

Kurnia Asia Berhad

23 November 2006

INSURANCE INDUSTRY OUTLOOK

(Extracted from BNM Insurance Annual Report, 19 April 2006; BNM Annual Report, 22 March 2006; Ninth Malaysia Plan, 31 March 2006)

A major challenge confronting the world economy in 2005 has been the sustained high energy prices during the year. This trend has prompted increases in interest rates, particularly in countries where interest rates have been at exceptionally low levels. In Malaysia, however, the rate of inflation has remained within a manageable range. In 2006, the rate of inflation is expected to rise, driven largely by cost-push factors before it moderates during the latter part of the year as capacity expansion and productivity improvements in the domestic economy will help contain price pressures. The macroeconomic conditions, therefore, continue to remain favorable, providing a positive and stable environment conducive for the economy. The economy is also expected to strengthen further in 2006, underpinned by strengthening exports and resilient domestic demand. Real GDP is forecasted to expand at a faster rate of 6% where the private sector would provide the main impetus to growth for the fourth consecutive year.

In the insurance industry, positive growth was maintained in 2005 despite more challenging investment conditions, where market penetration and per capita spending on insurance rose in 2005. The determinant of growth has shifted to the general insurance sector, which has benefited from the significantly higher motor insurance sales, increased insured exposures and favorable pricing conditions. Overall, healthy operating results continued to be achieved, underpinned by improved underwriting results, efficiency gains reaped from greater economies of scale, and a more efficient utilization of

capital. This further strengthened the solvency position of the insurance industry. It therefore provided a conducive environment for the implementation of regulatory and supervisory initiatives to further enhance the resilience of the industry, to improve market conditions and to take the development of the industry forward to new levels.

The competitive structure of the insurance industry was further enhanced during the year 2005 with the passage of legislation providing for the introduction of financial advisers and more aggressive penetration through direct distribution channels as well as continued expansion in bancassurance, which has increased opportunities for broader participation by smaller insurers in the market. These developments were accompanied by improvements in innovation and a greater degree of differentiation in the market, offering consumers a wider diversity of products and services. Following the liberalization of the foreign exchange administration rules, insurers have also begun to offer foreign-denominated education and investment-linked products.

The implementation of the Financial Sector Masterplan (FSMP) is well on track and as at 31 December 2005, i.e. half-way through the 10-year FSMP period, a total of 49 recommendations or more than half of the FSMP recommendations with milestones have been fully implemented. With the end game of creating a more resilient, competitive and dynamic insurance industry, the recommendations implemented to date are predominantly directed towards strengthening resilience, building the capacity and capabilities of domestic insurers, raising professionalism and corporate governance standards in the industry, as well as strengthening the consumer protection and supervisory framework.

In addition to the initiatives implemented under the FSMP, several other measures were undertaken by the Bank Negara during the year 2005 to promote sound development of the industry. These include greater investment flexibility, improvements to investment management, revision of guidelines on medical and health insurance and Anti-Money Laundering measures. Measures implemented in the general insurance sector during the year continued to focus on improving market practices, particularly in the motor insurance business. Some of the initiatives undertaken are guidelines on minimum disclosure requirements in the sale of general insurance products, online submission of motor Cover Notes to Road Transport Department, strict implementation of Cash-Before-Cover requirements, and mitigating exposure to epidemic diseases.

Significant opportunities for growth in the insurance industry are expected to result primarily from changing demographics in terms of an expanding ageing population with increasing wealth levels and rising awareness of the need for, and benefits of, insurance. The industry will, therefore, need to position itself, both financially and in terms of its reputation to meet the increasing demand for insurance. Under the recently announced 9th Malaysia Plan, efforts will continue to be undertaken to support the FSMP while continuous focus will be given to strengthen the financial risk management capabilities of insurers to support the implementation of a risk-based capital framework. This will be complemented by the on-going development of the capital market, which will expand investment avenues for insurers to improve their asset-liability management. Further deregulatory and liberalization measures will also be introduced, which include greater flexibility accorded to foreign insurers to establish branch offices, progressive deregulation of pricing for tariff-rated insurance products, issuing of new licenses, and removal of limits on management expenses. This will ensure continuing improvements in disclosure standards to promote greater market discipline in the more deregulated environment.



Dynamism

Setting the pace and momentum at the forefront of our industry through implementation of further initiatives whilst maximizing each opportunity in propelling performance up a gear.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors is pleased to present the following statement on the application of the principles of corporate governance contained in the Malaysian Code on Corporate Governance by the Company.

A. BOARD OF DIRECTORS

Board Balance

The current Board of Directors consists of the Executive Chairman, the Deputy Executive Chairman, Managing Director/Chief Executive Officer, three (3) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors. The Board composition is in line with the Bursa Malaysia Securities Berhad Listing Requirement ('Bursa Securities') that requires one-third (1/3) of the Board members to be Independent Directors to ensure independence of judgment.

There is a clear division of roles and responsibilities between the Executive Chairman and the Managing Director/Chief Executive Officer to ensure a balance of power and authority. At the company's level, the Executive Chairman is primarily responsible for the workings of the Board and at Group level he is responsible to oversee the group's business and performance. The Chief Executive Officer is responsible in overseeing the implementation of the strategies and plan adopted by the Board.

Decisions of the Board of Directors are based upon majority decisions and no single Board member can make decisions for and on behalf of the Board unless duly authorized by the Board of Directors. This is to ensure that no individual or small group of individuals can dominate the board's decision making. The involvement and participation of Independent Non-Executive Directors further provide an element of independent judgment to bear on the issues of strategy, performance, resources and standards of conduct in the Board's decision making and deliberation.

Board Meetings

The Board has convened 5 board meetings during the financial period 1 July 2005 to 30 June 2006. The Board's meeting main focus of deliberation is on financial performance and corporate developments of the Group. The Board of Directors is also responsible to deliberate and approve quarterly financial result of the Group in the Board meeting before announcement to Bursa Securities for onwards dissemination to the public. The Board members are given sufficient time to review and consider the issues in the agenda with circulation of Agenda and Board papers to the Board members prior to the meeting in order to facilitate decision making. The Board has full access to the senior management of the Group and the advice and services of the company secretary. In addition, the Directors, whether as a full board or in their individual capacity, in furtherance of their duties may seek independent professional advice at the Company's expense.

The attendance of the Directors at the Board meetings is set out in the Director's Profile, which appear on page 12 to 14 of this Annual Report.

Appointment of Directors

The Board had formed Nominating Committee comprised exclusively of non-executive directors, majority of whom are independent with the responsibility for identifying and proposing new candidates for the Board and for assessing directors on an on-going basis. Any new appointment to the Board must be upon recommendation by the Nominating Committee after assessment is done with the consideration of mix skills and experience and other qualities that the new candidate should bring to the Board. As a holding company of an insurance company, Bank Negara Malaysia's approval is sought after approval from the Board is obtained for any new appointment to the Board of the company.

Re-election of Directors

In accordance with the company's Articles of Association, one-third of the Directors shall retire from office at each Annual General Meeting and shall be eligible to offer themselves for re-election. Director who was appointed by the Board since the last Annual General Meeting are subject to re-election by the shareholders at the next Annual General Meeting held following their appointments.

Directors' Training

Pursuant to Bursa Malaysia Securities Berhad Listing Requirement on Mandatory Accreditation Programme (MAP), all the directors of the Company have attended the MAP. The Directors are continuously updating themselves with changes in the relevant guidelines and also encouraged to attend trainings and seminars to enhance their knowledge and keep abreast with development in the marketplace.

Board Committees

In discharging its fiduciary duties, the Board has set up various committees.

a) Audit Committee

The Committee members were as follows:

Leow Ming Fong @ Leow Min Fong (Chairman)

Independent Non-Executive Director

Tan Sri Kua Sian Kooi (resigned as Audit Committee member on 17 October 2006)

Non-Independent Executive Director

Dato' Yeoh Cheng Hooi

Independent Non-Executive Director

Datuk Mohd Saufi Bin Abdullah

Independent Non-Executive Director

Datuk Kua Chung Sen (appointed as Audit Committee member on 17 October 2006)

Non-Independent Executive Director

b) Nominating Committee

The Committee appointed by the Board of Directors consists of not less than 2 members comprising exclusively of non-executive directors, the majority of whom shall be independent directors.

The Committee's members are:

- Dato' Yeoh Cheng Hooi (Chairman)
- Datuk Mohd Saufi Bin Abdullah

The function of the Nominating Committee are:

- a) To recommend the nomination of a person or persons for all directorships to be filled by the shareholders or the board;
- b) To consider, in making its recommendations, candidates for directorships proposed by the Managing Director/Chief Executive Officer and, within the bounds of practicability, by any other senior executive or any director or shareholder;
- c) To recommend to the board, directors to fill the seats on board committees;
- d) To identify, evaluate and recommend candidates for appointment as Company Secretary;
- e) To assess annually the effectiveness of the board as a whole, the committees of the board and the contribution of each existing individual director and thereafter, recommend its findings to the board; and
- f) To review annually the required mix of skills and experience and other qualities, including core competencies which non-executive directors should bring to the board and thereafter, recommend its findings to the board.

c) Remuneration Committee

The Committee appointed by the Board of Directors consists of not less than two (2) members comprising wholly or mainly of non-executive directors.

The Committee members are as follows:

- Dato' Yeoh Cheng Hooi (Chairman)
- Datuk Kua Chung Sen
- Datuk Mohd Saufi Bin Abdullah

The Committee shall recommend to the board, the remuneration packages of managing directors, executive directors and senior management of the Company in all its forms, drawing from outside advice as necessary. The remuneration packages of non-executive directors shall be determined by the Board of Directors as a whole.

The number of directors who served during the financial year ended 30 June 2006 whose remuneration falls into the following bands:-

Range of Remuneration	No. of Directors	
	Executive	Non-Executive
RM10,000 – 50,000	-	1
RM50,001-100,000	-	4
RM100,001 – 1,600,000	-	-
RM1,600,001 – 1,650,000	1	-
RM1,650,001-2,000,000	-	-
RM2,000,001-2,050,000	1	-
RM2,050,001-4,100,000	-	-
RM4,100,001-4,150,000	1	-

The aggregate remuneration of directors distinguishing between the executive directors is RM7,777,000 and non-executive directors is RM245,000.

B. RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS RELATION

The Board emphasized the importance of timely dissemination of information to the Company's shareholders. Announcements of quarterly financial results were released much earlier than the deadlines stipulated in the Bursa Securities Listing Requirements, to ensure fast and efficient dissemination of information to the shareholders. Another forum of communication and interaction with the shareholders is via the Annual General Meeting. The Company also maintained a website at www.kurnia.com for shareholders to access for information.

The Company has conducted several road shows and investors' briefing with fund managers, analysts and institutional investors both locally and overseas, on the Group's financial performance and future prospects. A team consisting of qualified personnel headed by Chief Executive Officer is responsible to oversee shareholders' and investors' relations.

C. ACCOUNTABILITY AND AUDIT**Financial Reporting**

In submitting the annual audited financial statements, it is the Board's responsibility to present a balanced, clear as well as meaningful assessment of the Group's performance and future prospects. The Board is responsible for ensuring that the financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia. In discharging its responsibilities, the Board is assisted by the Audit Committee to ensure accuracy and adequacy in the information to be disclosed. The Statement of Directors' Responsibility in respect of the preparation of the annual audited financial statements is set out on page 50 of this Annual Report.

Internal Control

The Board acknowledges the importance of a sound internal control system to safeguard the interest of the shareholders. The overview of the state of the Group's internal control is spelled out in the Statement on Internal Control set out on page 38 to 39 of this Annual Report.

Relationship with the Auditors

The Board through the Audit Committee established a formal and transparent independent professional relationship with the external auditors.

D. BOARD COMMITTEES OF SUBSIDIARY COMPANY

As a measure of good corporate governance, Kurnia Insurans (Malaysia) Berhad ("KIMB"), the subsidiary of the Company has formed the following committees:-

- Audit Committee
- Risk Management Committee
- Remuneration Committee
- Nominating Committee



FAIRNESS

Equality and balance play a vital role in earning the confidence and trust of customers, shareholders, business partners and society through emphasis on fair play and respect for one another.

AUDIT COMMITTEE REPORT

Membership and Attendance

During the financial period 1 July 2005 to 30 June 2006, a total of 4 Audit Committee meetings were held. The Committee comprises the following members and details of attendance of each member at the Committee meetings held during the period are as follows:-

Composition of Audit Committee

Number of Committee meetings Held Attended

Leow Ming Fong @ Leow Min Fong

Chairman/Independent Non-executive Director

Newly appointed on 16 June 2006

Tan Sri Kua Sian KooiMember/Non-Independent Executive Director
(resigned as Audit Committee member on 17 October 2006)

4 4

Dato' Yeoh Cheng Hooi

Member/Independent Non-Executive Director

4 4

Datuk Mohd Saufi Bin Abdullah

Member/Independent Non-Executive Director

4 4

Datuk Kua Chung Sen

Member/Independent Executive Director

Newly appointed on 17 October 2006

Terms of Reference

Composition

The Audit Committee shall be appointed by the directors from amongst themselves which fulfils the following requirements:-

1. The Audit Committee shall be composed of no fewer than three (3) members;
2. A majority of the Audit Committee must be independent directors and at least one (1) member;
 - (a) must be a member of the Malaysian Institute of Accountants; or
 - (b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - (i) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (ii) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
3. The Chairman of the Audit Committee shall be an independent director;
4. The Chief Executive Officer shall not be a member of the Audit Committee;
5. The Audit Committee shall fulfil such other requirements as prescribed by Bursa Securities; and
6. The Audit Committee shall not consist of any alternate director of the company.

Retirement And Resignation

In the event of any vacancy in the audit committee, the company must fill the vacancy within 3 months.

Rights

The Audit Committee shall in accordance with the procedure determined by the Board and at the cost of the Company:-

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Company;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- (e) be able to obtain independent professional or other advise; and
- (f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Company, whenever deemed necessary.

Functions And Duties

The functions of the Audit Committee are as follows:-

The Committee shall:-

- (1) review the following and report the same to the Board of Directors:-
 - (a) with the external auditor, the audit plan, the evaluation of the system of internal controls and the audit report;
 - (b) the assistance given by the employees of the company to the external auditors;
 - (c) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - (d) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - (e) the quarterly results and year end financial statements, prior to the approval by the board of directors, focusing particularly on:-
 - (i) changes in or implementation of major accounting policy changes;
 - (ii) significant and unusual events; and
 - (iii) compliance with accounting standards and other legal requirements;
 - (f) any related party transaction and conflict of interest situation that may arise within the Company and the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - (g) any letter of resignation from the external auditors of the company; and
 - (h) whether there is reason (supported by grounds) to believe that the company's external auditor is not suitable for reappointment;
- (2) recommend the nomination of a person or persons as external auditors; and
- (3) report promptly to Bursa Securities where the Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

Meetings

1. The committee shall meet at least four (4) times in a year or more frequently as circumstances required with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
2. A minimum of two (2) independent members present shall form the quorum.
3. Upon the request of any member of the Committee, the external auditors or the internal auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider matters which should be brought to the attention of the directors or shareholders.
4. The external auditors and internal auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee.
5. The Committee may invite any Board member or any member of management or any employee of the Company who the Committee thinks fit to attend its meetings to assist and to provide pertinent information as necessary.
6. The Company must ensure that other directors and employees attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

Procedure Of Audit Committee

The Audit Committee may regulate its own procedures, in particular:-

- (a) the calling of meetings;
- (b) the notice to be given of such meetings;
- (c) the voting and proceedings of such meetings;
- (d) the keeping of minutes; and
- (e) the custody, production and inspection of such minutes.

Secretary

The Company Secretary or other appropriate senior official shall be the Secretary to the Audit Committee.

Summary Of Activities

During the financial year, the Audit Committee carried out its duties in accordance with its terms of reference.

Other main issues discussed by the Audit Committee are as follows:-

- (a) Reviewed the external auditors' scope of work and audit plans for the year;
- (b) Reviewed the financial statements of the Group on a quarterly basis; and
- (c) Reviewed the internal audit reports, audit recommendation and management response to these recommendations.

The Internal Audit Function

The subsidiary company, Kurnia Insurans (Malaysia) Berhad has a well-established Internal Audit Department (IAD), which reports to the Audit Committee (AC) in monitoring and managing risks and internal controls.

The IAD is independent of the activities or operations of other departments and is guided by its Audit Charter. Audit assignments are prioritized based on audit risk assessment where the audit plan is reviewed and approved by the AC. The IAD also performs ad-hoc assignments as directed by the AC.

The IAD's primary role is to assist the AC to discharge its duties and responsibilities by independently reviewing and reporting

- on the adequacy and integrity of the company's system of internal controls on various departments,
- to provide reasonable assurance that such system continue to operate satisfactorily and effectively, and
- on the compliance with the established policies and procedures as well as relevant statutory requirements.

Upon completion of each audit, audit reports together with the recommended action plans and its implementation status are presented to the Management and AC. The IAD will monitor closely the implementation progress of its audit recommendations to obtain assurance that all major risk and controls have been addressed by the Management. The IAD also follow-up on the findings reported by the Bank Negara Malaysia / External Auditors.

The Head of the IAD has regular meetings with the AC during the year in order for the audit findings to be raised and addressed promptly.

STATEMENT ON INTERNAL CONTROL

The Malaysia Code on Corporate Governance stipulates that the Board of Directors of listed companies should maintain a sound system of internal control to safeguard shareholders' investments and Group assets. The Statement on Internal Control is prepared under the requirement of Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad and in accordance with the "Statement on Internal Control: Guidance for Directors of Public Listed Companies" issued by the Institute of Internal Auditors Malaysia and as adopted by Bursa Securities. The Board recognizes the importance of a sound system of internal control to safeguard shareholders' investment and the Group's assets, enhance accountability and monitor function, minimize fraud and ensure the accuracy and reliability of information reporting to management.

Responsibility

The Board affirms its overall responsibility for the Group's system of internal control. This includes reviewing the adequacy and integrity of financial, operational and compliance controls and risk management procedures. 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 business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group structure

The Group comprises Kurnia Asia Berhad (KAB) and its only subsidiary, Kurnia Insurans (Malaysia) Berhad (KIMB).

As the sole operating subsidiary of the Group and it being an entity regulated by Bank Negara Malaysia, KIMB's existing internal controls processes constitute a major part of the Group's system of internal control. In addition, two committees were established at the holding company level, KAB, namely, an Executive Committee (EXCO) and an Audit Committee to enhance the internal control function of the Group as a whole.

Key internal control processes

The key processes that have been established in reviewing the adequacy of the system of internal controls of the Group include the following:

At holding company level,

- The KAB Executive Committee (EXCO) was established by the Board and comprised the existing Executive Committee members of KIMB, to implement policy decisions of the Board of Directors and to monitor the business direction of the Group as formulated by the Board of Directors. The EXCO is also to set corporate philosophy/direction, strategy, goals and targets, review the performance of the Group on a monthly basis and other functions as stipulated in its terms of reference.
- The KAB Audit Committee, together with the existing Audit Committee of KIMB, are responsible to review the internal control issues identified by the Internal Audit Department and the external auditors as well as to improve the Group's business efficiency, the quality of the accounting function, the system of internal controls and audit function. The committee's function also includes review of the annual and quarterly financial results and to make appropriate recommendation to the KAB Board for their approval. During the financial year, the KAB Audit Committee met 4 times. Further details of the activities undertaken by the Audit Committee are set out in the Audit Committee Report.

At the insurance subsidiary, KIMB level,

- The Audit Committee reviews the internal control issues identified by the Internal Audit Department and the external auditors, and therefore to improve the company's business efficiency, the quality of the accounting function, the system of internal controls and audit function. It is also responsible to review the adequacy of the scope, functions and resources of the Internal Audit Department. The minutes of the KIMB Audit Committee meetings are tabled to the Board of Directors of KIMB at each Board meeting. The KIMB Audit Committee held 6 meetings during the year.
- The KIMB Internal Audit Department reviews compliance with relevant operations' policies and procedures and the effectiveness of the internal control systems under review and highlights significant findings in respect of any non-compliance. Audits are carried out on units or branches, the frequency of which is determined by the level of risk assessed, to report on operational and management activities of these units or branches. The annual audit plan was reviewed and approved by the KIMB Audit Committee and the findings of the audits are submitted to the KIMB Audit Committee for review at their periodic meetings.
- An Investment Committee was established in KIMB with the following responsibilities:-
 - i) to review the performance of the investment portfolio on a regular basis;
 - ii) to review and formulate appropriate investment strategies, directions and guidelines;
 - iii) to review and approve investment transactions, which are in line with the strategies and directions, and within the guidelines, approved by the Board of Directors, and
 - iv) to review and approve for recommendation to the EXCO / Board of Directors all investments of significant amounts including property acquisitions and loan participation.
- Annual business plans are prepared and reviewed and approved by the EXCO of KIMB. Performance is then gauged against approved budgets and explanations are provided for significant variances to the EXCO on a monthly basis. Year-to-date performance and results are also tabled to the KIMB Board for review at their periodic Board meetings.
- There exist proper guidelines within the Group for hiring and terminating of staff, formal training programs and annual performance appraisals in place to ensure that staff is competent and adequately trained in carrying out responsibilities.
- Policies and procedures for compliance with internal controls and the relevant laws and regulations are set out in the various operations manuals of the company. These are updated as and when the need arises.

Review of statement by external auditors

The external auditors have reviewed this Statement on Internal Control for the inclusion in the annual report of the Group for the year ended 30 June 2006 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process the Board has adopted in review of the adequacy and integrity of internal control of the Group.



MOTOR

When you buy a motor vehicle, you need to buy a motor insurance. Kurnia's basic motor policy protects against loss or damage to vehicles, third party bodily injuries and properties. Kurnia's Private Car Comprehensive policy includes Kurnia Auto Assist (KAA), a free 24-hour service for breakdowns and accidents and Kurnia Express (KE), a 1-hour motor claims service, where you will receive immediate settlement* at our designated Kurnia Express Centers.

*cheque or direct deposit into your bank account



PRODUCTS & SERVICES

At Kurnia Insurans, we anticipate the needs of our extensive customer base through a diverse range of general insurance products and services. We are committed to fulfilling the needs of our customers by providing them with the best possible financial protection tools.



PERSONAL ACCIDENT

Personal Accident coverage is an annual policy, which provides compensation in the event of injuries, disability or death caused solely by violent, accidental, external and visible events. It gives 24-hour worldwide protection in the event of an accident anywhere around the world. Available for individual, group or family packages.

HOME

Insures home, property and personal effects through various home or building protection plans against theft, natural disasters and accidental physical loss or damage. Available to private dwellings, houses, flats, garages and out-buildings depending on the type of coverage.



MEDICAL

Proper healthcare is no longer a privilege, but a right for everyone as health insurance coverage is one of the key components of sound financial plan. Kurnia's MediGuard Express policy card guarantees hassle-free admission and discharge for a covered condition at any of our panel hospitals nationwide. Kurnia MediGuard provides free choice of hospitals – the insured settles their bill upon discharge, after which they are reimbursed for the covered condition. Kurnia also offers a Group Medical Insurance package for SMI's which is a comprehensive hospitalization and surgical insurance which reimburse the employer or employee on incurred medical expenses.

ENGINEERING

Kurnia's various engineering insurance protection plans are designed to cover projects involving construction and other civil engineering works, and includes comprehensive protection for machinery and equipment.



TRAVEL

Kurnia's comprehensive travel protection policy safeguards the insured whether on a leisurely holiday, excursion or a business trip. The policy extends from local activities to overseas travels, whether individually or in groups.





BizGuard

Your business is your achievement and pride. But should a fire, theft or any unfortunate event occur, you could lose everything that you have established in a single instant. Kurnia BizGuard is a comprehensive insurance package that allows you to find the best solution from 3 easy plans - allowing you to focus on growing your business.

Employee Benefits

The policy gives protection to an employer against any compensation amount they may be liable to pay to any employee or their dependents for personal injuries sustained by accident or disease arising out of and in the course of his employment.

Marine

Marine Insurance policies covers goods against physical loss, damage, expenses and liability through Marine Cargo Insurance for air freight, ocean freight and overland carriage transportation whilst Goods in Transit Insurance protects goods whilst being transported on land.

Liability

Kurnia's range of liability insurance offers protection and indemnifies the insured against any compensation sum they may be liable to pay in respect of any bodily injury caused to any person, for the loss or damage to property as well as any legal charges and expenses they may have incurred.

* Subject to terms & conditions



OUR BUSINESS

Kurnia's core business function aims to deliver client services and growth in all line of general insurance business nationwide. Its key activities are geared toward identifying client needs and market trends whilst offering products and services through various channels.

Building on long-standing and close relationships, Kurnia offers clients effective and competitive financial protection services, effective risk management solutions to support their business activities whilst fostering further cooperation. Kurnia has systematically sought to expand its market position throughout its history, and the ongoing consolidation of this position serves to reinforce Kurnia's role as a leader in the general insurance industry.

Banking & Finance

The banking and finance industry has had major impact on Kurnia's corporate value, bottom line and strategy, whether directly or indirectly over the course of the last 15 years. Through this, various banking and financial institutions have sought protection under Kurnia's broad range of Liability Insurances, Fire Insurances and Employee Benefits Insurance policies.



Logistics & Transportation

This venture saw the collaboration between Kurnia and leading players in the logistics and transportation sector where Kurnia has been and is currently providing them with all range of insurance coverage.

Automobile Sales & Manufacturing

Various automobile sales and manufacturing companies have sought coverage under Kurnia's comprehensive product range, which include various engineering insurance classes as well as the Employee Benefits coverage. This symbiotic partnership has also indirectly contributed to Kurnia's reigning leadership in the motor insurance business.





Oil & Gas

Being one of the industries that contribute heavily towards Malaysia's economic growth, Kurnia is proud to be associated with key oil and gas companies. Currently covered under the Industrial All Risks and Construction All Risks Insurance policies, Kurnia hopes to further strengthen its position by supporting more industries such as these.

Construction

Kurnia has been able to deploy its knowledge and expertise to promote proper underwriting and risk surveying for various construction projects around the country. Through this, Kurnia currently provides Contractor All Risks Insurance, Erections All Risks Insurance & Construction All Risks to some of the country's leading construction companies.



News & Media

Since the invention of paper, print media has been, and still is, one of the oldest and core communication platforms around the world. With this opportunity in mind, Kurnia has embarked on a partnership with leading print news media corporations in Malaysia by providing them with various classes of insurance protection to give them further peace of mind in conducting their business and taking care of their employees.

ANALYSIS ON FINANCIAL STATEMENTS

Balance Sheet

Total Assets

The Group's total assets stood at RM1.976 billion as at 30 June 2006, reflecting only a slight increase of 0.3% from RM1.971 billion at the preceding year-end as a result of an interim dividend of RM97.5 million paid out on 23 September 2005. Investments and property & equipment made up 74.1% (2005: 78.1%) and 13.1% (2005: 12.9%) of the Group's total assets respectively.

Net assets value (NAV)

The Group's net assets value (NAV) amounted to RM483.041 million as at 30 June 2006 (2005: RM550.775 million). This translates into NAV per share of 32.20 sen (2005: 36.72 sen).

Investments

The Group's investments portfolio stood at RM1.464 billion as at 30 June 2006 (2005: RM1.539 billion), and the composition is as follows:

	2006		2005	
	RM'000		RM'000	
Fixed and call deposits	505,156	35%	1,038,537	67%
Bonds	635,620	43%	296,436	19%
Government securities	31,513	2%	42,968	3%
Equities	213,461	15%	118,302	8%
Others	78,255	5%	43,357	3%
	<u>1,464,005</u>	<u>100%</u>	<u>1,539,600</u>	<u>100%</u>

The change in portfolio composition mix reflected the Group's efforts to reallocate more funds into higher yielding investments to increase the level of returns, while maintaining a reasonable level of risk exposure.

Cash and bank balances

The Group's cash and bank balances amounted to RM96.400 million as at 30 June 2006 (2005: RM95.107 million). Included in the balance was RM51 million (2005: RM58 million) fixed and call deposits at holding company level, pending suitable investment opportunities in the near future.

Provision for outstanding claims

The Group's provision for outstanding claims totaled RM972.968 million as at 30 June 2006, up by 11.8% from RM870.373 million at preceding year-end. This included additional provision made for incurred but not reported (IBNR) claims as determined by an independent actuary.

Unearned premium reserve

The Group's unearned premium reserve dropped by 3.5% from RM464.440 million at preceding year-end to RM447.976 million as at 30 June 2006, in tandem with a 6.4% decline in net premium income for the year at the subsidiary company.

Negative goodwill

The Group's negative goodwill of RM60.831 million (2005: RM60.831 million) as at 30 June 2006 arose from the acquisition of its insurance subsidiary, KIMB, on 5 November 2004, and is carried in the Group's balance sheet at cost.

Income Statement

The current year results are not directly comparable to the corresponding results in the preceding financial year, which represented only the post-acquisition results from the insurance subsidiary following its acquisition on 5 November 2004.

Underwriting Performance Indicators	2006	2005
Retention ratio	92.9%	92.0%
Net commission ratio	10.3%	9.5%
Net claims incurred ratio	74.3%	59.1%
Management expenses ratio	18.1%	16.1%
Underwriting margin	(2.2%)	14.7%

Gross premium income

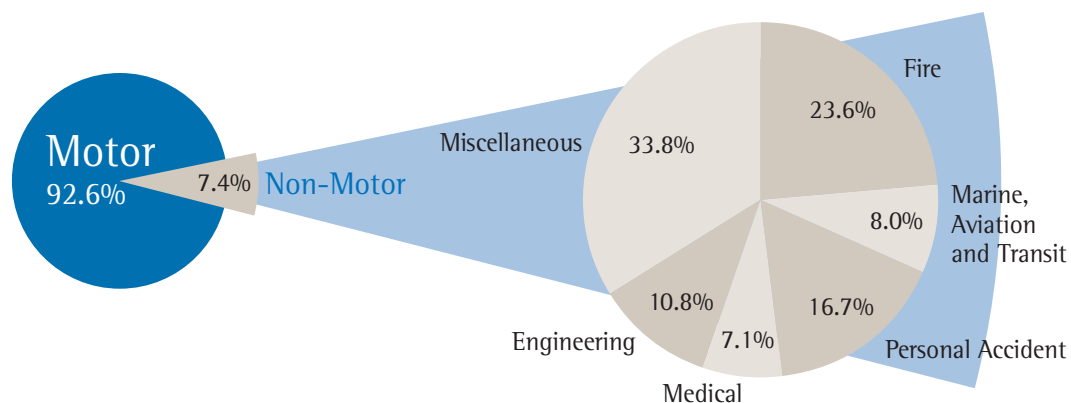
The Group recorded gross premium income of RM1.101 billion (2005 post-acquisition portion: RM808.760 million) during the current financial year.

It represents a reduction of 7.2% from the RM1.187 billion full year gross premium income recorded by the insurance subsidiary, KIMB for the preceding financial year. This was partly due to the Group's efforts in streamlining its business portfolio to enhance long-term profitability.

At the same time, the impact of higher petrol prices, rising interest rates and the implementation of the National Automotive Policy (NAP) in March 2006 which resulted in lower motor vehicle sales both in the primary and secondary markets, also inevitably reduced the market value of motor vehicles, and in turn, lowered the sum insured and premium income written thereof.

Business portfolio

The Group derived 92.6% (2005: 92.6%) of its gross premium income from Motor business and 7.4% (2005: 7.4%) from Non-Motor business. It is consistent with the insurance subsidiary's business portfolio for full financial year 2005 of 92.2% Motor and 7.8% Non-Motor.

Business portfolio (cont'd)**Net commission ratio**

The Group recorded a net commission ratio of 10.3% during the current financial year, computed over the Group's net premium.

It is higher than the 9.5% and 9.6% recorded by the Group (post-acquisition portion) and the insurance subsidiary, KIMB (full year) respectively for the preceding financial year, mainly due to the payment of profit commission to profitable qualified agents during the current financial year.

Net claims incurred ratio

The Group registered a net claims incurred ratio of 74.3% during the current financial year, computed over the Group's earned premium.

This is higher than the 59.1% and 59.0% recorded by the Group (post-acquisition portion) and the insurance subsidiary, KIMB (full year), respectively, for the preceding financial year, mainly as a result of the adverse claims experience and higher provision made for IBNR claims reserves.

The Group's overall claims performance in current financial year had weakened particularly due to higher number of theft claims, total losses and third party property damage cases recorded.

Management expense ratio

The Group recorded a management expense ratio of 18.1% during the current financial year, computed over the Group's net premium as compared to the 16.1% and 15.4% recorded by the Group (post-acquisition portion) and the insurance subsidiary, KIMB (full year) respectively for the preceding financial year. The higher ratio is mainly due to additional costs incurred on implementation of various e-initiatives like e-Cover Notes, e-Policy and e-Payment, together with higher advertisement and promotional expenses during the current financial year. The effect is further compounded by the 6.4% lower net premium income recorded by KIMB for the current financial year.

Investment income (insurance fund)

The Group recorded investment income of RM65.963 million during the current financial year, which is significantly higher from the RM39.490 million and RM55.031 million recorded by the Group (post-acquisition) and the insurance subsidiary, KIMB (full year) respectively for the preceding financial year. This translates to a net investment yield of 4.3% p.a. (2005: 4.0% p.a.)

The improvement is attributable to the Group's efforts in re-strategizing its investment portfolio since the beginning of the current financial year.

Financial Statements

Kurnia Asia Berhad

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STATEMENT OF DIRECTORS' RESPONSIBILITY

in relation to Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of their results and cash flow for the financial year then ended.

In preparing the financial statements, the Directors have:

- considered the applicable approved Malaysian accounting standards
- adopted and consistently applied appropriate accounting policies
- made judgements and estimates that are prudent and reasonable

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act, 1965, applicable and approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines.

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

DIRECTORS' REPORT

for the year ended 30 June 2006

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 30 June 2006.

Principal activities

The Company is principally engaged in investment holding, whilst the principal activity of the subsidiary is stated in Note 3 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Net profit for the year	<u>29,819</u>	<u>101,816</u>

Dividends

Since the end of the previous financial year, the Company paid an interim dividend of approximately 36.11% less tax totaling RM97,500,000 in respect of the year ended 30 June 2006 on 23 September 2005.

The Directors do not recommend a final dividend for the financial year ended 30 June 2006.

Reserves and provisions

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

Directors of the Company

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

Tan Sri Kua Sian Kooi
 Datuk Kua Chung Sen
 Dato' Low Heong Chow @ Loh Heong Chow
 Dato' Othman Bin Abdul
 Dato' Quah Teong Moo
 Dato' Yeoh Cheng Hooi
 Datuk Mohd Saufi Bin Abdullah
 Leow Ming Fong @ Leow Min Fong (appointed on 16.6.2006)

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiary) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.25 each			At 30.6.2006
	At 1.7.2005	Bought	Sold	
Shareholdings in which directors have direct interest in the Company:				
Tan Sri Kua Sian Kooi	764,657,024	-	-	764,657,024
Datuk Kua Chung Sen	11,722,000	980,000	-	12,702,000
Dato' Low Heong Chow @ Loh Heong Chow	5,000,000	2,000,000	-	7,000,000
Dato' Othman Bin Abdul	34,795,468	-	-	34,795,468
Dato' Quah Teong Moo	17,867,300	-	-	17,867,300
Dato' Yeoh Cheng Hooi	31,827,319	-	6,000,000	25,827,319
Datuk Mohd Saufi Bin Abdullah	10,000,000	-	5,400,000	4,600,000

Shareholdings in which directors have deemed interest in the Company:

Dato' Othman Bin Abdul via D.O.A Entrepreneur Sdn Bhd	113,438,000	-	-	113,438,000
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By virtue of Tan Sri Kua Sian Kooi's interest in the shares of the Company above, he is also deemed interested in the shares of the subsidiary during the financial year to the extent that Kurnia Asia Berhad has an interest.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements of the Company and its related company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for those disclosed in Note 26 to the financial statements.

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

Issue of shares

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

Options granted over unissued shares

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

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- (i) there was adequate provision for incurred claims, including Incurred But Not Reported (IBNR) claims,
- (ii) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (iii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- (i) that would render the amount written off for bad debts, or the amounts of the provisions for doubtful debts and incurred claims, in the Group and in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

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

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 30 June 2006 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

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

Signed in accordance with a resolution of the Directors:

Tan Sri Kua Sian Kooi

Dato' Low Heong Chow @ Loh Heong Chow

Petaling Jaya,

Date: 6 November 2006

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 58 to 87, are 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 the state of affairs of the Group and of the Company at 30 June 2006 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

Tan Sri Kua Sian Kooi

Dato' Low Heong Chow @ Loh Heong Chow

Petaling Jaya,

Date: 6 November 2006

STATUTORY DECLARATION

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

I, **San Chee Kit**, the officer primarily responsible for the financial management of Kurnia Asia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 58 to 87 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Petaling Jaya on 6 November 2006

San Chee Kit

Before me:

Haji Muhammad Bin Haron S.M.S, A.M.N.

Commissioner for Oaths

We have audited the financial statements set out on pages 58 to 87. The preparation of the financial statements is the responsibility of the Company's Directors.

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

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

REPORT OF THE AUDITORS

to the members of Kurnia Asia Berhad

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 30 June 2006 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiary have been properly kept in accordance with the provisions of the said Act.

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

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

KPMG
Firm Number: AF 0758
Chartered Accountants

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

Kuala Lumpur,

Date: 6 November 2006

BALANCE SHEETS

at 30 June 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Assets					
Property and equipment	2	259,136	254,733	790	812
Investment in subsidiary	3	-	-	290,618	328,007
Investments	4	1,464,005	1,539,600	45,050	-
Loans (secured)	5	20,039	22,418	-	-
Trade and other receivables	6	97,598	59,059	243	110
Tax recoverable		38,756	-	119	-
Cash and cash equivalents	7	96,400	95,107	54,853	58,635
Total assets		1,975,934	1,970,917	391,673	387,564
Liabilities					
Provision for outstanding claims	8	972,968	870,373	-	-
Trade and other payables	9	50,145	56,115	77	52
Provision for taxation		-	13,197	-	179
Retirement benefits	10	11,881	9,938	-	-
Deferred tax liability	11	9,923	6,079	-	-
Total liabilities		1,044,917	955,702	77	231
Insurance reserve					
Unearned premium reserve	12	447,976	464,440	-	-
Shareholders' equity					
Share capital	13	375,000	375,000	375,000	375,000
Reserves	14	47,210	114,944	16,596	12,333
		422,210	489,944	391,596	387,333
Negative goodwill	15	60,831	60,831	-	-
		1,975,934	1,970,917	391,673	387,564

The financial statements were approved and authorised for issue by the Board of Directors on 6 November 2006.

INCOME STATEMENTS

for the year ended 30 June 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Revenue	16	<u>1,166,335</u>	<u>848,065</u>	<u>145,964</u>	<u>1,020</u>
Transfer from general insurance revenue account		43,467	145,589	-	-
Investment income	22	1,775	-	144,291	-
Management expenses	20	(3,373)	(1,042)	(3,373)	(1,042)
Other expenses	23	(826)	-	(826)	-
Operating profit/(loss)		<u>41,043</u>	<u>144,547</u>	<u>140,092</u>	<u>(1,042)</u>
Interest income	22	<u>1,673</u>	<u>1,020</u>	<u>1,673</u>	<u>1,020</u>
Profit/(loss) before taxation		<u>42,716</u>	<u>145,567</u>	<u>141,765</u>	<u>(22)</u>
Tax expense	17	<u>(12,897)</u>	<u>(43,249)</u>	<u>(39,949)</u>	<u>(271)</u>
Net profit/(loss) for the year		<u>29,819</u>	<u>102,318</u>	<u>101,816</u>	<u>(293)</u>
Basic earnings per ordinary share (sen)	18	<u>1.99</u>	<u>10.31</u>		
Dividend per ordinary share, net (sen)	24	<u>6.50</u>	<u>-</u>		

The notes set out on pages 64 to 87 form an integral part of, and should be read in conjunction with, these financial statements.

GENERAL INSURANCE REVENUE ACCOUNT

for the year ended 30 June 2006

Group	Note	Fire		Motor		Marine, Aviation and Transit		Miscellaneous		Total	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Gross premium	16	19,343	13,935	1,019,441	749,238	6,574	4,753	55,901	40,834	1,101,259	808,760
Less: Reinsurance		(7,892)	(6,046)	(52,924)	(42,349)	(2,038)	(1,477)	(15,623)	(14,604)	(78,477)	(64,476)
Net premium		11,451	7,889	966,517	706,889	4,536	3,276	40,278	26,230	1,022,782	744,284
(Increase) / Decrease in unearned premium reserves	12	(39)	465	15,250	(23,702)	258	3	995	3,118	16,464	(20,116)
Earned premium		11,412	8,354	981,767	683,187	4,794	3,279	41,273	29,348	1,039,246	724,168
Net claims incurred	19	(5,864)	(4,486)	(738,105)	(413,153)	(5,471)	(2,039)	(22,550)	(8,301)	(771,990)	(427,979)
Net commission		(868)	(139)	(96,783)	(65,697)	(635)	(455)	(6,629)	(4,202)	(104,915)	(70,493)
		(6,732)	(4,625)	(834,888)	(478,850)	(6,106)	(2,494)	(29,179)	(12,503)	(876,905)	(498,472)
Underwriting surplus before management expenses		4,680	3,729	146,879	204,337	(1,312)	785	12,094	16,845	162,341	225,696
Management expenses	20									(184,837)	(119,597)
Underwriting (deficit)/surplus										(22,496)	106,099
Investment income	22									61,628	38,285
Other income-net	23									4,335	1,205
Transfer to income statement										43,467	145,589

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2006

Group	Share Capital RM'000	Non-Distributable Share Premium RM'000	Distributable Retained Profit RM'000	Total RM'000
At 1 July 2004	*	-	(5)	(5)
Issue of shares	375,000	15,038	-	390,038
Share issue expenses	-	(2,407)	-	(2,407)
Net profit for the year	-	-	102,318	102,318
At 30 June 2005	375,000	12,631	102,313	489,944
Share issue expenses	-	(53)	-	(53)
Dividend paid	-	-	(97,500)	(97,500)
Net profit for the year	-	-	29,819	29,819
At 30 June 2006	375,000	12,578	34,632	422,210
	Note 13			

Company	Share Capital RM'000	Non-Distributable Share Premium RM'000	Distributable Retained Profit/ (Accumulated Loss) RM'000	Total RM'000
At 1 July 2004	*	-	(5)	(5)
Issue of shares	375,000	15,038	-	390,038
Share issue expenses	-	(2,407)	-	(2,407)
Net loss for the year	-	-	(293)	(293)
At 30 June 2005	375,000	12,631	(298)	387,333
Share issue expenses	-	(53)	-	(53)
Dividend paid	-	-	(97,500)	(97,500)
Net profit for the year	-	-	101,816	101,816
At 30 June 2006	375,000	12,578	4,018	391,596
	Note 13		Note 14	

* Represents RM2.00

The notes set out on pages 64 to 87 form an integral part of, and should be read in conjunction with, these financial statements.

CASH FLOW STATEMENTS

for the year ended 30 June 2006

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash flows from operating activities				
Profit/(Loss) before taxation	42,716	145,567	141,765	(22)
Adjustments for:				
Depreciation	18,510	11,942	319	152
(Decrease)/Increase in unearned premium reserve	(16,464)	20,116	-	-
Investment income	(62,459)	(39,208)	(144,291)	-
Interest income	(1,673)	-	(1,673)	(1,020)
Loss/(Profit) on sales of investments	2,897	(1,962)	707	-
Gain on disposal of equipment	(84)	(796)	-	-
Equipment written off	28	8	-	-
(Write back of)/Allowance for diminution in value of investments	(4,378)	3,305	119	-
Write back of allowance for doubtful debts	(4,175)	(5,792)	-	-
Bad debt recovery	(147)	-	-	-
Provision for retirement benefits	2,377	2,199	-	-
Accretion of discounts, net amortisation of premium	(944)	(97)	-	-
(Loss)/Profit from operations before changes in operating assets and liabilities	(23,796)	135,282	(3,054)	(890)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006 (cont'd)

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Purchase of investments	(1,289,965)	(44,683)	-	-
Proceeds from redemption and disposal of investments	660,910	158,376	-	-
Decrease in loans	2,379	159	-	-
(Decrease)/Increase in fixed and call deposits	719,306	(276,839)	-	-
Decrease/(Increase) in trade and other receivables	1,807	28,729	(88)	(15)
Increase in outstanding claims	102,595	108,315	-	-
(Decrease)/Increase in trade and other payables	(5,968)	(66,438)	25	47
	167,268	42,901	(3,117)	(858)
Tax paid	(61,006)	(16,513)	(40,247)	(92)
Investment income received				
Dividend	16,132	8,495	181,655	-
Interest	43,966	28,068	-	-
Retirement benefits paid	(434)	(301)	-	-
Net cash generated from/(used in) operating activities	165,926	62,650	138,291	(950)
Cash flow from investing activities				
Proceeds from disposal of equipments	85	940	-	-
Proceeds from disposal of investments	19,293	-	19,293	-
Purchase of investments	(65,169)	-	(65,169)	-
Purchase of property and equipments	(22,942)	(22,940)	(297)	(964)
Interest received	1,653	925	1,653	925
Acquisition of subsidiary, net of cash acquired	-	(6,092)	-	-
Net cash used in investing activities	(67,080)	(27,167)	(44,520)	(39)
Cash flow from financing activities				
Dividend paid	(97,500)	-	(97,500)	-
Share issue expenses	(53)	(2,407)	(53)	(2,407)
Proceeds from rights issue	-	62,031	-	62,031
Net cash (used in) / generated from financing activities	(97,553)	59,624	(97,553)	59,624
Net increase / (decrease) in cash and cash equivalents	1,293	95,107	(3,782)	58,635
Cash and cash equivalents at beginning of year	95,107	*	58,635	*
Cash and cash equivalents at end of year	96,400	95,107	54,853	58,635
Cash and cash equivalents comprise:				
Cash and bank balances (Note 7)	45,223	37,107	3,676	635
Deposits placed with licensed banks (Note 7)	51,177	58,000	51,177	58,000
	96,400	95,107	54,853	58,635

* Represents RM2.00

The notes set out on pages 64 to 87 form an integral part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company, and are consistent with those adopted in previous years.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with applicable approved accounting standards in Malaysia, the provisions of the Companies Act 1965, the Insurance Act 1996, Insurance Regulations 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia in all material aspects.

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

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries 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 subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected in the Balance Sheet as goodwill or negative goodwill as appropriate. Goodwill and negative goodwill is stated at cost less accumulated impairment loss, if any.

Intra-group transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

1. Summary of significant accounting policies (cont'd)

(c) Property and equipment

Freehold land and capital work-in-progress are stated at cost. All other property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

(d) Depreciation

Freehold land and capital work-in-progress are not amortised. Leasehold land is amortised in equal installments over the period of the respective leases while buildings are depreciated on a straight line basis over the shorter of 50 years or the lease period. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Freehold buildings	2%
Office improvement	10% - 33 ¹ / ₃ %
Furniture and fittings	10%
Office equipment and computers	10% - 20%
Motor vehicles	20%

(e) Investments

Investment in subsidiary, which is eliminated on consolidation, is stated at cost less impairment losses, if any.

Investments in Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Government Investment Issues, Banker Acceptance and other unquoted unsecured corporate debt securities that carry a minimum rating of BBB or P3 by rating agencies established in Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums and accretion of discounts to maturities.

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

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment is not regarded as temporary, provision is made against the value of that quoted investment.

Diminution in value of a particular quoted investment is not regarded as temporary when the market value has been less than 80% of its cost at all times during the preceding 24 months, by writing down the cost of that quoted investment to the average median price for each month during that 24 months period.

All other unquoted investments are stated at the lower of cost and net realisable value.

(f) Investment property

Freehold land is stated at cost and includes related and incidental expenditure incurred less accumulated impairment losses, if any.

1. Summary of significant accounting policies (cont'd)**(g) Trade and other receivables**

Trade and other receivables are stated at cost less allowance for doubtful debts.

Known bad debts are written off and specific allowance for doubtful debts is made as follows:

- a) Motor premiums which remain outstanding for more than 30 days.
- b) Non-motor premiums including agents and reinsurance balances which remain outstanding for more than six months.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and deposits with bank for investment holding activities.

(i) Impairment

The carrying amount of assets, other than tax recoverable and financial assets (other than investment in subsidiary), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement/ revenue account.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement/revenue account.

(j) Employee benefits*(i) Short term employee benefits*

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when such absences occur.

(ii) Defined contribution plan

Obligations for contributions to defined contribution plan are recognised as an expense in the income statement / revenue account as incurred.

(iii) Defined benefit plan

The Group's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of plan assets, if any, is deducted. The discount rate is the market yield at the balance sheet date on high quality corporate bonds or government bonds. The calculation is performed by an actuary using the projected unit credit method.

1. Summary of significant accounting policies (cont'd)

(j) **Employee benefits (cont'd)**

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the revenue account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the revenue account.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, if any, that portion is recognised in the revenue account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(k) **Liabilities**

Trade and other payables are stated at cost.

(l) **General insurance underwriting results**

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

Premium income

Premium is recognised in a financial year in respect of risks assumed during that particular financial year. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Inward Treaty Business

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

Unearned Premium Reserve

The Unearned Premium Reserve (UPR) represent the portion of the net premiums of insurance policies written less deductible acquisition costs that relate to the unexpired period of the policies at the end of the financial year.

The method used to calculate UPR is as follows:

- (i) 25% method for marine and aviation cargo business.
- (ii) $\frac{1}{24}$ th method for all other classes of Malaysian general policies business.

Provision for claims

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with the related expenses less recoveries to settle the present obligation at the balance sheet date.

Provision is also made for the cost of claims, together with related expenses in respect of those incurred but not reported at balance sheet date, using a mathematical method of estimation as determined by independent external actuarial valuation and as modified by Bank Negara Malaysia.

Acquisition costs

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

1. Summary of significant accounting policies (cont'd)

(m) Other revenue recognition

Interest income on loans and other interest-bearing investments are recognised on an accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

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

(n) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(o) Foreign currency

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the revenue account.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

100 BAHT	RM9.61 (2005: RM9.20)
1 US Dollar	RM3.68 (2005: Nil)

(p) Operating lease payments

Payments made under operating leases are recognised in the revenue account on a straight-line basis over the term of the leases.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. Property and equipment

Group	Freehold land	Leasehold land	Buildings	Office Furniture and equipment			Motor vehicles	Capital work-in- progress	Total
				improvements	fittings	computers			
Cost	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2005	15,706	33,137	127,947	7,303	27,585	45,923	6,440	2,634	266,675
Additions	153	-	2,389	375	2,237	14,339	1,265	2,184	22,942
Disposals	-	-	-	-	-	(1)	-	-	(1)
Written off	-	-	-	-	(30)	-	-	-	(30)
Reclassification	-	-	59	657	836	51	-	(1,603)	-
At 30 June 2006	15,859	33,137	130,395	8,335	30,628	60,312	7,705	3,215	289,586
Accumulated depreciation									
At 1 July 2005	-	279	1,779	989	2,915	4,610	1,370	-	11,942
Charge for the year	-	435	2,695	1,348	4,342	8,117	1,573	-	18,510
Disposals	-	-	-	-	-	-	-	-	-
Written off	-	-	-	-	(2)	-	-	-	(2)
At 30 June 2006	-	714	4,474	2,337	7,255	12,727	2,943	-	30,450
Net book value									
As at 30 June 2006	15,859	32,423	125,921	5,998	23,373	47,585	4,762	3,215	259,136
As at 30 June 2005	15,706	32,858	126,168	6,314	24,670	41,313	5,070	2,634	254,733
Depreciation charge for the year ended 30 June 2005	-	279	1,779	989	2,915	4,610	1,370	-	11,942

Leasehold land with leasehold period of 50 years or less and more than 50 years amounted to RM198,000 (2005: RM202,000) and RM32,225,000 (2005: RM32,656,000) respectively

Company

Cost	Motor vehicles		Total
	RM'000	RM'000	
At 1 July 2005	964		964
Additions	297		297
At 30 June 2006	1,261		1,261
Accumulated depreciation			
At 1 July 2005	152		152
Charge for the year	319		319
At 30 June 2006	471		471
Net book value			
As at 30 June 2006	790		790
As at 30 June 2005	812		812

3. Investment in subsidiary

	Company	
	2006 RM'000	2005 RM'000
Unquoted shares, at cost	328,007	328,007
Dividend from pre-acquisition profit	(37,389)	-
	<u>290,618</u>	<u>328,007</u>

The wholly owned subsidiary is Kurnia Insurans (Malaysia) Berhad, a company incorporated in Malaysia and it is principally engaged in the underwriting of general insurance. The subsidiary was acquired on 5 November 2004.

4. Investments

Group	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investment property, at cost				
Freehold land	<u>7,500</u>		<u>7,500</u>	
Malaysian Government Securities	32,724		45,387	
Amortisation of premium net of accretion of discounts	<u>(1,211)</u>		<u>(2,419)</u>	
	<u>31,513</u>		<u>42,968</u>	
Cagamas Bonds	172,048		140,179	
Amortisation of premium net of accretion of discounts	<u>(44)</u>		<u>(93)</u>	
	<u>172,004</u>		<u>140,086</u>	
Zero Coupon Government Guaranteed Bonds	14,216		14,216	
Accretion of discounts	<u>4,999</u>		<u>4,090</u>	
	<u>19,215</u>		<u>18,306</u>	
Government Investment Issues	4,350		-	
Accretion of discounts	<u>130</u>		<u>-</u>	
	<u>4,480</u>		<u>-</u>	
Bankers Acceptances	86,065		-	
Accretion of discounts	<u>397</u>		<u>-</u>	
	<u>86,462</u>		<u>-</u>	

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

4. Investments (cont'd)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Negotiable Instrument of Deposits	95,000		-	
Allowance for diminution in value	(17)		-	
	<u>94,983</u>		<u>-</u>	
Quoted in Malaysia:				
Shares of corporations	212,031		119,622	
Allowance for diminution in value	-		(2,750)	
	<u>212,031</u>	<u>217,892</u>	<u>116,872</u>	<u>117,154</u>
Unit trusts	51,091		17,838	
Allowance for diminution in value	(500)		(2,145)	
	<u>50,591</u>	<u>50,591</u>	<u>15,693</u>	<u>15,693</u>
Unquoted in Malaysia:				
Secured corporate debt securities	15,504		15,504	
Amortisation of premiums net of accretion of discounts	(440)		(356)	
	<u>15,064</u>		<u>15,148</u>	
Unsecured corporate debt securities	430,276		124,793	
Amortisation of premiums net of accretion of discounts	(939)		(1,897)	
	<u>429,337</u>		<u>122,896</u>	
Secured short term loan				
- Performing loan	14,164		20,164	
- Non performing loan	6,000		-	
	<u>20,164</u>		<u>20,164</u>	
Shares of corporation	<u>1,430</u>		<u>1,430</u>	
Fixed and call deposits with:				
Licensed banks	244,514		348,337	
Licensed finance companies	-		104,129	
Other financial institutions	74,717		586,071	
	<u>319,231</u>		<u>1,038,537</u>	
Total investments	<u>1,464,005</u>		<u>1,539,600</u>	

4. Investments (cont'd)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investments maturing after twelve months:				
Malaysian Government Securities	26,231		36,675	
Cagamas Bonds	57,000		140,086	
Zero Coupon Government Guaranteed Bonds	4,538		18,306	
Government Investment Issues	4,480		-	
Unquoted secured corporate debt securities	-		15,148	
Unquoted unsecured corporate debt securities	374,750		102,768	
Unquoted secured short term loan	-		14,164	
Fixed and call deposits	36,219		-	
	<u> </u>		<u> </u>	

Company	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Quoted in Malaysia				
Unit trusts	45,169		-	
Allowance for diminution in value	(119)		-	
	<u>45,050</u>	<u>45,050</u>	<u>-</u>	<u>-</u>

5. Loans (secured)

	Group	
	2006 RM'000	2005 RM'000
Mortgage loans	19,854	21,949
Other loans	210	509
Interest-in-suspense	(12)	(40)
	<u>198</u>	<u>469</u>
Allowance for doubtful debts	(13)	-
	<u>185</u>	<u>469</u>
	<u>20,039</u>	<u>22,418</u>
Receivable after twelve months	<u>8,975</u>	<u>9,352</u>

6. Trade and other receivables

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade receivables				
Outstanding premium including agents/brokers and co-insurers balances	46,260	45,599	-	-
Allowance for doubtful debts	(31,507)	(37,708)	-	-
	14,753	7,891	-	-
Amount due from re-insurers / ceding companies	13,637	17,857	-	-
Allowance for doubtful debts	(11,354)	(11,986)	-	-
	2,283	5,871	-	-
Other receivables				
Other receivables, deposits and prepayments	80,362	45,097	153	110
Subsidiary	-	-	90	-
Loan stock of a statutory body	200	200	-	-
	97,598	59,059	243	110

Included in other receivables of the Group as at year end is an amount of RM55,217,000 (2005: RM22,068,000) relating to proceeds receivable from the disposal of certain quoted investments and was fully received subsequent to the financial year end.

7. Cash and cash equivalents

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and bank balances	45,223	37,107	3,676	635
Deposits placed with licensed banks	51,177	58,000	51,177	58,000
	96,400	95,107	54,853	58,635

8. Provision for outstanding claims

	Group	
	2006 RM'000	2005 RM'000
Provision for outstanding claims	1,035,335	930,291
Less: Recoverable from reinsurers thereon	(62,367)	(59,918)
Net outstanding claims	972,968	870,373

9. Trade and other payables

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<i>Trade payables</i>				
Amount due to reinsurers/ ceding companies and co-insurers	9,948	20,461	-	-
Amount due to agents/ brokers and insured	3,614	3,547	-	-
	<u>13,562</u>	<u>24,008</u>	<u>-</u>	<u>-</u>
<i>Other payables</i>				
Other payables and accrued expenses	36,583	32,107	77	27
Subsidiary	-	-	-	25
	<u>50,145</u>	<u>56,115</u>	<u>77</u>	<u>52</u>

10. Retirement benefits

The movements in the net liability recognised in the balance sheet are as follows:

	Group	
	2006 RM'000	2005 RM'000
At 1 July 2005/2004	9,938	-
Acquisition of subsidiary	-	8,040
Benefits paid	(434)	(301)
Expenses recognised in the revenue account (Note 21)	2,377	2,199
At 30 June	<u>11,881</u>	<u>9,938</u>

The liability for the unfunded defined benefit obligation recognised in the balance sheet is analysed as follows:

	Group	
	2006 RM'000	2005 RM'000
Present value of unfunded obligations	<u>11,881</u>	<u>9,938</u>
Payable after twelve months	<u>11,881</u>	<u>9,471</u>

The expenses recognised in the revenue account under the management expenses caption which is included in salaries and related expenses are analysed as follows:

	Group	
	2006 RM'000	2005 RM'000
Current service cost	1,492	1,425
Interest cost	830	697
Actuarial loss	55	77
	<u>2,377</u>	<u>2,199</u>

Principal actuarial assumptions used at the balance sheet date:

	Group	
	2006 RM'000	2005 RM'000
Discount rate	7%	7%
Future salary increases	<u>6%</u>	<u>6%</u>

Under the Scheme, eligible employees who have completed a minimum of 10 years of service is entitled to retirement benefits of one month of the last drawn salary for each completed year of service upon the retirement age of 56.

11. Deferred tax liability

The amount, determined after appropriate offsetting are as follows:

	Group	
	2006 RM'000	2005 RM'000
Deferred tax liability	<u>9,923</u>	<u>6,079</u>

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax relates to the same taxation authority.

Movement in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

Group	At 1 July 2005 RM'000	Charged/ (Credited) to Income Statement RM'000	At 30 June 2006 RM'000
Deferred tax liabilities			
Property and equipment	10,480	2,068	12,548
Other items	-	732	732
Total	<u>10,480</u>	<u>2,800</u>	<u>13,280</u>
Deferred tax assets			
Retirement benefits	(4,378)	1,051	(3,327)
Other deductible temporary difference	(23)	(7)	(30)
Total	<u>(4,401)</u>	<u>1,044</u>	<u>(3,357)</u>

12. Unearned premium reserve

Group	Fire RM'000	Motor RM'000	Marine, Aviation and Transit RM'000	Miscel- laneous RM'000	Total RM'000
2006					
At 1 July 2005	5,239	440,990	1,335	16,876	464,440
Increase/(Decrease) during the year	39	(15,250)	(258)	(995)	(16,464)
At 30 June 2006	<u>5,278</u>	<u>425,740</u>	<u>1,077</u>	<u>15,881</u>	<u>447,976</u>
2005					
At 1 July 2004	-	-	-	-	-
Acquisition of subsidiary	5,704	417,288	1,338	19,994	444,324
Increase/(Decrease) during the year	(465)	23,702	(3)	(3,118)	20,116
At 30 June 2005	<u>5,239</u>	<u>440,990</u>	<u>1,335</u>	<u>16,876</u>	<u>464,440</u>

13. Share capital

	Group and Company			
	2006		2005	
	No. of Shares '000	RM'000	No. of Shares '000	RM'000
Ordinary shares of RM0.25 / RM1.00 each				
Authorised:				
Balance at 1 July 2005 / 2004	5,000,000	1,250,000	100	100
Arising from share split [^]	-	-	300	-
Increase during the year	-	-	4,999,600	1,249,900
Balance at 30 June	5,000,000	1,250,000	5,000,000	1,250,000
Issued and fully paid:				
Balance at 1 July 2005 / 2004	1,500,000	375,000	#	*
Arising from share split [^]	-	-	##	-
Issue of shares	-	-	1,500,000	375,000
Balance at 30 June	1,500,000	375,000	1,500,000	375,000

* Represents RM2.00

Represents 2 shares

Represents 6 shares

[^] During the last financial year, the Company had carried out a share split of its ordinary shares of RM1.00 each into 4 ordinary shares of RM0.25 each

14. Reserves

Subject to agreement with the Inland Revenue Board, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank all of its distributable reserves as at 30 June 2006 if paid out as dividends.

15. Negative goodwill

	Group	
	2006 RM'000	2005 RM'000
At 1 July 2005 / 2004	60,831	-
Acquisition of subsidiary	-	60,831
At 30 June	60,831	60,831

16. Revenue

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Gross premium	1,101,259	808,760	-	-
Investment income – insurance fund	61,628	38,285	-	-
Investment income – non-insurance fund	1,775	-	144,291	-
Interest income – non-insurance fund	1,673	1,020	1,673	1,020
	1,166,335	848,065	145,964	1,020

17. Tax expense

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current tax expense				
Malaysian				
– current	11,181	42,899	39,949	271
– over provision in prior years	(2,128)	-	-	-
Deferred tax				
Reversal of temporary differences	3,809	(135)	-	-
Under provision in prior years	35	485	-	-
	<u>12,897</u>	<u>43,249</u>	<u>39,949</u>	<u>271</u>

Reconciliation of effective tax expense

Profit before taxation	<u>42,716</u>	<u>145,567</u>	<u>141,765</u>	<u>(22)</u>
Income tax using Malaysian tax rate	11,960	40,759	39,694	(6)
Non-deductible expenses	4,314	2,582	752	277
Tax exempt income	(1,284)	(92)	(497)	-
Over provision in prior year	(2,093)	-	-	-
Tax expense	<u>12,897</u>	<u>43,249</u>	<u>39,949</u>	<u>271</u>

18. Earnings per ordinary share – Group

Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of RM29,819,000 (2005: RM102,318,000) and the weighted average number of ordinary shares outstanding during the year of 1,500,000,000 (2005: 992,168,000).

Weighted average number of ordinary shares

	Group	
	2006 '000	2005 '000
Issued ordinary shares at beginning of the year	1,500,000	*
Effect of share split on 2 August 2004 #	-	**
Share issued for acquisition of subsidiary on 5 November 2004	-	874,685
Rights issue on 17 November 2004	-	117,483
Weighted average number of ordinary shares	<u>1,500,000</u>	<u>992,168</u>

* Represents 2 shares

** Represents 6 shares

As the share split had resulted in an increase in the number of shares without any consideration, the exercise was treated as if it had occurred at the beginning of the financial year ended 30 June 2005.

19. Net claims incurred

Group	Marine, Aviation and Transit				Total RM'000
	Fire RM'000	Motor RM'000	Miscel- laneous RM'000	Miscel- laneous RM'000	
2006					
Gross claims paid less salvage	7,454	682,768	4,897	25,621	720,740
Reinsurances recoveries	(2,908)	(42,263)	(870)	(5,304)	(51,345)
Net claims paid	4,546	640,505	4,027	20,317	669,395
Net outstanding claims:					
At 30 June 2006	6,479	940,592	5,968	19,929	972,968
At 1 July 2005	(5,161)	(842,992)	(4,524)	(17,696)	(870,373)
Net claims incurred	5,864	738,105	5,471	22,550	771,990
2005					
Gross claims paid less salvage	5,871	330,409	4,418	13,773	354,471
Reinsurances recoveries	(1,030)	(27,695)	(1,651)	(4,431)	(34,807)
Net claims paid	4,841	302,714	2,767	9,342	319,664
Net outstanding claims:					
At 30 June 2005	5,161	842,992	4,524	17,696	870,373
Acquisition of subsidiary At 1 July 2004	(5,516)	(732,553)	(5,252)	(18,737)	(762,058)
Net claims incurred	4,486	413,153	2,039	8,301	427,979

20. Management expenses

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Insurance fund				
Salaries and related expenses	86,901	63,218	-	-
Directors' remuneration				
Fees	386	228	-	-
Salary and other remuneration	7,905	3,624	-	-
Auditors' remuneration	158	88	-	-
Rental of office and premises	1,067	754	-	-
Depreciation of property and equipment	18,191	11,790	-	-
Write back of allowance for doubtful debts	(4,175)	(5,792)	-	-
Bad debt recovery	(147)	-	-	-
IGSF levies	2,749	1,936	-	-
Advertisement expenses	19,587	8,310	-	-
Bank charges	10,525	10,571	-	-
Other expenses	41,690	24,870	-	-
	184,837	119,597	-	-
Non-insurance fund				
Salaries and related expenses	312	77	312	77
Directors' remuneration				
Fees	245	150	245	150
Salary and other remuneration	758	195	758	195
Auditors' remuneration	33	20	33	20
Depreciation of property and equipment	319	152	319	152
Other expenses	1,706	448	1,706	448
	3,373	1,042	3,373	1,042
	188,210	120,639	3,373	1,042

The estimated monetary value of Directors' benefits-in-kind of the Group and of the Company is RM273,000 (2005: RM84,000) and RM16,000 (2005: RM40,000) respectively.

21. Employee information

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Staff costs	95,790	66,297	1,070	353
Employee's provident fund	8,471	5,948	103	21
Defined benefit plans	2,377	2,199	-	-
	<u>10,848</u>	<u>8,147</u>	<u>103</u>	<u>21</u>

The number of employees of the Group and of the Company (including Executive Directors) at the end of the year was 1,890 (2005: 1,831) and 26 (2005: 16), respectively.

22. Investment income

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Insurance fund				
Interest income from:				
Malaysian Government Securities	2,857	2,157	-	-
Cagamas Bonds	6,709	3,559	-	-
Unquoted corporate debt securities	15,514	5,975	-	-
Secured short term loans				
- Performing loan	1,253	1,591	-	-
Government Investment Issue	15	-	-	-
Negotiable Instrument of Deposit	1,239	-	-	-
Fixed and call deposits	18,454	16,411	-	-
Gross dividends from:				
Quoted shares in Malaysia	13,604	7,336	-	-
Quoted unit trusts in Malaysia	794	1,061	-	-
Unquoted shares in Malaysia	245	98	-	-
Accretion of discounts, net of amortisation of premiums	944	97	-	-
	<u>61,628</u>	<u>38,285</u>	<u>-</u>	<u>-</u>
Non-insurance fund				
Dividend income	1,775	-	144,291	-
Interest income				
- Fixed and call deposits	1,673	1,020	1,673	1,020
	<u>3,448</u>	<u>1,020</u>	<u>145,964</u>	<u>1,020</u>
	<u>65,076</u>	<u>39,305</u>	<u>145,964</u>	<u>1,020</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

23. Other income – net

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Insurance fund				
Other income				
Other interest income	1,021	948	-	-
Sundry income	951	812	-	-
Profit on sale of investments	-	1,962	-	-
Gain on disposal of equipment	84	796	-	-
Write back of provision for diminution in value of investments in quoted shares and unit trusts	4,514	-	-	-
	<u>6,570</u>	<u>4,518</u>	<u>-</u>	<u>-</u>
Insurance fund				
Other expenditure				
Equipment written off	28	8	-	-
Allowance for diminution in value of investments in quoted shares and unit trusts	-	3,305	-	-
Allowance for diminution in value of investments in Negotiable Instruments of Deposits	17	-	-	-
Loss on disposal of investments	2,190	-	-	-
	<u>2,235</u>	<u>3,313</u>	<u>-</u>	<u>-</u>
Other income - net	<u>4,335</u>	<u>1,205</u>	<u>-</u>	<u>-</u>
Non-Insurance fund				
Other expenditure				
Allowance for diminution in value of investment in unit trusts	119	-	119	-
Loss on disposal of investments	707	-	707	-
	<u>826</u>	<u>-</u>	<u>826</u>	<u>-</u>

24. Dividends

	Company	
	2006 RM'000	2005 RM'000
Dividend paid:		
Interim dividend of approximately 36.11% less tax for financial year ended 30 June 2006	97,500	-
	<u>97,500</u>	<u>-</u>

The net dividend per ordinary share is 6.50 sen (2005: Nil) as disclosed in the Income Statement represents the total interim dividend paid for the financial year ended 30 June 2006. There was no final dividend for that financial year.

25. Capital commitments

Capital expenditure approved by the Directors but not provided for in the financial statements as at 30 June 2006 amounted to approximately:

	Group	
	2006 RM'000	2005 RM'000
Property and equipments Authorised and contracted for	8,488	12,922

26. Significant related party disclosures

Controlling related party relationships are as follows:-

- (i) The subsidiary company as disclosed in Note 3
- (ii) A director and substantial shareholder of the Company, Tan Sri Kua Sian Kooi

Significant transactions and balances with companies in which a Director has substantial interests are as follows:

Transaction with	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Subsidiary Company Kurnia Insurans (Malaysia) Berhad Purchase of motor vehicles	-	-	-	964
A Company in which Dato' Othman Bin Abdul is a common Director, and Dato' Othman Bin Abdul and Tan Sri Kua Sian Kooi have indirect interest: Kurnia Leisure Sdn Bhd Tour services and other services paid	7,391	1,700	446	76
Kua Boon Chuan Realty Sdn Bhd Rental paid	102	-	-	-
A company in which Tan Sri Kua Sian Kooi and Dato' Low Heong Chow @ Loh Heong Chow are common directors and Tan Sri Kua Sian Kooi has direct interest: Kurnia Insurance Thailand Reinsurance inwards premium Reinsurance inwards claim paid	332 195	134 437	- -	- -

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

27. Segmental information

Segment information is presented in respect of the Group's business segments. The primary format, business segment, is based on the Group's management and internal reporting structure.

The Group is principally engaged in the underwriting of general insurance which are all located within Malaysia. Accordingly, information by geographical segments on the Group's operations is not presented.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segmental capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:

Investment holding	Investment holding company
General insurance	Underwriting of all classes of general insurance business

	Investment Holding RM'000	General Insurance RM'000	Elimination RM'000	Consolidated RM'000
2006				
Revenue	145,964	1,162,887	(142,516)	1,166,335
Segment results	141,765	43,467	(142,516)	42,716
Profit before taxation				42,716
Tax expense				(12,897)
Net profit for the year				29,819
2005				
Revenue	1,020	847,045	-	848,065
Segment results	(22)	145,589	-	145,567
Profit before taxation				145,567
Tax expense				(43,249)
Net profit for the year				102,318

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

27. Segmental information (cont'd)

	Investment Holding RM'000	General Insurance RM'000	Total RM'000	Elimination RM'000	Consolidated RM'000
2006					
Segment assets	391,554	1,836,332	2,227,886	(290,708)	1,937,178
Unallocated assets					38,756
Total assets					<u>1,975,934</u>
Segment liabilities	77	1,482,983	1,483,060	(90)	1,482,970
Unallocated liabilities					9,923
Total liabilities					<u>1,492,893</u>
Capital expenditure	297	22,645	22,942	-	<u>22,942</u>
Depreciation	319	18,191	18,510	-	<u>18,510</u>
Accretion of discounts, net of amortization of premium	-	944	944	-	<u>944</u>
Non-cash expenses:					
Write back of / (Allowance for) diminution in value of investments	(119)	4,497	4,378	-	<u>4,378</u>
Write back of allowance for doubtful debts	-	4,175	4,175	-	<u>4,175</u>
Provision for retirement benefits	-	2,377	2,377	-	<u>2,377</u>
2005					
Segment assets	387,564	1,911,385	2,298,949	(328,032)	1,970,917
Segment liabilities	52	1,400,839	1,400,891	(25)	1,400,866
Unallocated liabilities					19,276
Total liabilities					<u>1,420,142</u>
Capital expenditure	964	22,940	23,904	(964)	<u>22,940</u>
Depreciation	152	11,790	11,942	-	<u>11,942</u>
Accretion of discounts, net of amortization of premium	-	97	97	-	<u>97</u>
Non-cash expenses:					
Allowance for diminution in value of investments	-	3,305	3,305	-	<u>3,305</u>
Write back of allowance for doubtful debts	-	5,792	5,792	-	<u>5,792</u>
Provision for retirement benefits	-	2,199	2,199	-	<u>2,199</u>

28. Financial instruments*(a) Financial risk management objectives and policies*

Exposure to underwriting, credit, interest rate, liquidity and market risks arises in the normal course of the Group's business. The Board of Directors assumes overall responsibility for the Group's financial risk management and has established several committees to address the risks on an ongoing basis.

Underwriting risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Group seeks to minimise underwriting risks with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits and standards applied to the security of reinsurers.

Credit risk

Credit risk represents the potential losses that may result due to the inability of the counterparties to insurance, reinsurance and investment transactions in meeting their contractual obligations.

The Group has a credit control department and an informal credit policy in place and exposure to credit risk is monitored on an ongoing basis. Investments are made based on appropriate evaluations, in accordance with Guidelines/Circular issued by BNM, whereby all bond investments must carry a minimum rating of BBB or P3 by rating agencies established in Malaysia.

At balance sheet date, there were no significant concentrations of credit risk other than as disclosed in the next paragraph. The maximum exposure to credit risk for the Group is represented by the carrying amount of each financial asset.

Included in other receivables, deposits and prepayments of the Group is a balance due from a share broker in respect of proceeds from investments disposals that represents approximately 69% (2005 – 49%) of other receivables, deposits and prepayments as at balance sheet date.

Interest rate risk

The Group and the Company's earnings are affected by changes in market interest rates as the impact of such changes has an effect on interest income from deposit placements and fixed income securities. To mitigate the interest rate risks, the deposit placements are made with various financial institutions at varying maturity dates and rates.

Liquidity risk

Liquidity risk is the risk whereby the Group and the Company is unable to meet its obligations at a reasonable cost or at any time. The Group and the Company manage this risk by monitoring its daily and monthly projected and actual cash flows. It also holds a sufficient quantity of liquid investments that can be readily converted to cash.

28. Financial instruments (cont'd)

(a) Financial risk management objectives and policies (cont'd)

Market risk

The Group and the Company's investment portfolio is generally exposed to fluctuation in market prices. The risk is managed via setting diversification requirement and investment limits of each investee groups, which is in accordance to BNM guidelines or admitted assets. Risk and returns are constantly monitored and reviewed by the Executive Committee.

(b) Effective interest rates and re-pricing analysis

The following table provides information about financial assets showing the weighted average effective interest rate as at year end and the maturity/re-pricing structure, whichever is earlier, for each class of interest-bearing financial instruments in the balance sheet.

Group	2006					2005				
	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000
Financial assets										
- Malaysian Government Securities	6.26	31,513	5,282	26,231	-	6.23	42,968	6,293	36,675	-
- Cagamas Bonds	4.06	172,004	115,004	16,000	41,000	3.53	140,086	-	140,086	-
- Zero Coupon Government Guaranteed Bonds	5.43	19,215	14,677	4,538	-	5.43	18,306	-	18,306	-
- Government Investment Issues	3.38	4,480	-	4,480	-	n.a.	-	-	-	-
- Bankers Acceptances	3.76	86,462	86,462	-	-	n.a.	-	-	-	-
- Negotiable Instrument of Deposits	3.40	94,983	94,983	-	-	n.a.	-	-	-	-
- Unquoted secured corporate debt securities	8.03	15,064	15,064	-	-	8.03	15,148	-	15,148	-
- Unquoted unsecured corporate debt securities	5.17	429,337	54,587	221,074	153,676	6.53	122,896	20,128	57,552	45,216
- Secured short term loans										
Performing loan	9.25	14,164	14,164	-	-	11.33	20,164	6,000	14,164	-
Non performing loan	-	6,000	6,000	-	-	-	-	-	-	-
- Fixed and call deposits	3.44	370,408	334,189	36,219	-	2.76	1,096,537	1,096,537	-	-
Loans (secured)										
- Mortgage loans	4.89	19,854	10,879	2,182	6,793	4.54	21,949	12,597	2,126	7,226
Total financial assets		1,263,484	751,291	310,724	201,469		1,478,054	1,141,555	284,057	52,442
Company										
- Fixed and call deposits	3.48	51,177	51,177	-	-	2.71	58,000	58,000	-	-

28. Financial instruments (cont'd)*(c) Fair value*

Recognised financial instruments

The carrying amounts of financial instruments in respect of cash and bank balances, trade and other receivables, and trade and other payables on the Balance Sheet approximate their fair values due to the relatively short term nature of these financial instruments.

The Group and the Company's basis of estimation of fair values for other financial instruments are as follows:

- The fair values of Malaysian Government Securities, Cagamas Bonds, Government Investment Issues and Zero Coupon Government Guaranteed Bonds are based on the indicative market prices;
- The fair values of quoted shares of corporations and unit trusts are based on quoted market price as at balance sheet date;
- The fair values of Negotiable Instrument of Deposit, unquoted secured and unsecured Corporate Debt Securities are based on the average indicative market yields obtained from three financial institutions;
- The carrying amount of secured short term loan, Banker Acceptance and fixed and call deposits with a maturity period less than one year are assumed to approximate their fair values; and
- The mortgage loans with variable rates are considered to approximate their fair values. For mortgage and other loans with fixed rates, fair values are derived by discounting future cash flows, using interest rates for similar instruments, where applicable, taking into consideration the nature and contracted terms of these loans. Based on management's assessment as at 30 June 2006, the estimated fair values of the loans approximate their carrying values.

28. Financial instruments (cont'd)

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

Group	2006		2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
- Malaysian Government Securities	31,513	32,791	42,968	46,336
- Cagamas Bonds	172,004	171,030	140,086	140,883
- Zero Coupon Government Guaranteed Bonds	19,215	19,274	18,306	18,863
- Government Investment Issues	4,480	4,309	-	-
- Bankers Acceptances	86,462	86,462	-	-
- Negotiable Instrument of Deposits	94,983	96,107	-	-
- Unquoted secured corporate debt securities	15,064	15,282	15,148	15,641
- Unquoted unsecured corporate debt securities	429,337	423,490	22,896	130,374
- Secured short term loan				
Performing loan	14,164	14,164	20,164	20,164
Non Performing loan	6,000	6,000	-	-
- Fixed and call deposits	370,408	370,408	1,096,537	1,096,537
- Quoted shares of corporations	212,031	217,892	116,872	117,154
- Quoted unit trusts	50,591	50,591	15,693	15,693
Loans (secured)				
- Mortgage loans	19,854	19,854	21,949	21,949
- Other loans	185	185	469	469
Company				
- Fixed and call deposits	51,177	51,177	58,000	58,000
- Quoted unit trusts	45,050	45,050	-	-

29. Comparative Figures

The Group's comparative for the Income Statements, Statements of Changes in Equity and Group Cash Flow Statements as well as the comparatives in the notes to the financial statements relating to the Income Statements for 2005 represented only the 8 months post-acquisition results from the insurance subsidiary following its acquisition on 5 November 2004, and are hence not comparable to that for the current 12 months ended 30 June 2006.

1. Utilisation of proceeds raised from corporate proposals

The status of the utilisation of the proceeds from Rights Issue exercise, which was completed in November 2004, as at the date of this announcement is as follows:

	As proposed RM'000	Actual RM'000
Total proceeds raised	62,031	62,031
Utilisation of Rights Issue proceeds	As proposed RM'000	Actual RM'000
Working capital	60,031	59,624
Listing expenses	2,000	2,407
	62,031	62,031

2. Share Buy Back

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

3. Options, warrants or convertible securities

The Company has not issued any options, warrants or convertible securities during the financial year.

ADDITIONAL COMPLIANCE INFORMATION

4. American Depository Receipt (ADR) or Global Depository Receipt (GDR)

The Company did not sponsor any ADR or GDR programme during the financial year under review.

5. Imposition of Sanctions and / or Penalties

There were no public sanctions and / or penalties imposed on the Company and its subsidiary, Directors or the Management by any regulatory body during the financial year under review.

6. Variation in results

The Group's audited results showed a deviation of RM20.037 million from the unaudited fourth quarter results announced previously.

	RM'000
Profit after tax as per 4th Quarter announcement	49,856
Incurred But Not Reported (IBNR) Claims - additional provision	(28,026)
Management expenses adjustment	142
Tax effect thereon	7,847
Profit after tax as per audited account	29,819

The difference is substantially attributed to additional provision made, on the advice of Bank Negara Malaysia, in respect of Incurred But Not Reported (IBNR) claims. The additional provision, which amounted to RM28.026 million, represented less than 3% of total provision for outstanding claims. With the additional provision, which is over and above the initial provision amount as determined by an independent professional Actuary, the Group's total IBNR reserve as at 30 June 2006 has strengthened further from RM574.198 million to RM602.224 million, and its Technical Reserves (comprising unearned premium reserve and provision for outstanding claims, inclusive of IBNR reserves) as at 30 June 2006 has increased to RM1.421 billion.

7. Profit Guarantee

The Company did not give any profit guarantee during the financial year.

8. Revaluation policy on landed properties

The Group does not revalue its landed properties classified as Property and Equipment as well as those classified as Investment Properties. Freehold lands are stated at cost and leasehold lands are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

9. Material contracts

There were no material contracts entered into by the Company and its subsidiary involving directors' and shareholders' interest which were still subsisting as at the end of the financial year under review or which were entered into since the end of the previous financial year.

LIST OF PROPERTIES

No.	Location	Existing use	Tenure	Land Area (Sq.meters)	Type of building	Age of building	Latest date of Revaluation(#)/ Acquisition	Net Book value as at 30.6.2006(RM)
1	Lot 665, Jalan Permaisuri, 98000 Miri held under issue document of title Lot 665, Block 9, Miri Concession Land District, Miri, Sarawak.	Office	Leasehold Expiring- 17 September 2052	166.00	3-storey terraced corner shophouse	Not available	20 April 1999	1,191,260.88
2	No. 246 & 247, Jalan Datuk Wee Kheng Chiang, 93450 Kuching held under issue document of title Lot 468 and 469, Section 62, Kuching Town Land District, Sarawak.	Office	Leasehold Expiring- 31 December 2797	285.10	1 unit 3-storey terraced intermediate shophouse & 1 unit 3-storey terraced corner shophouse	Not available	1 November 1997	3,514,397.68
3	No. 12, 12a & 12b, Jalan Padi Satu, Bandar Baru Uda, 81200 Tampoi held under issue document of title H.S. (D) 50559, PTB 11103, Bandar & Daerah Johor Bahru, Johor.	Office	Leasehold Expiring- 6 February 2081	289.9504	3-storey terraced corner shophouse	12+	21 February 2000	1,856,348.63
4	Plot 19-01 to 19-04 & Plot 20-01 to 20-04, Susur 4, Jalan Tun Abdul Razak, 80100 Johor Bharu held under issue document of title H.S. (D) 265984, PTB 20402 Bandar Johor Bahru, Daerah Johor Bahru, Johor.	Vacant	Leasehold Expiring- 29 September 2096	170.30	1 unit 4 ¹ / ₂ storey terraced intermediate shophouse & 1 unit 4 ¹ / ₂ storey terraced corner shophouse	2+	13 October 1998	2,754,102.52

LIST OF PROPERTIES (cont'd)

No.	Location	Existing use	Tenure	Land Area (Sq.meters)	Type of building	Age of building	Latest date of Revaluation(#)/ Acquisition	Net Book value as at 30.6.2006(RM)
5	No.149-151, Jalan Maharajalela, Wisma Kurnia, 50150 Kuala Lumpur, held under issue document of title Grant No. 4594 & 4595, Lot 956 & 957 Seksyen 69, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur.	Office	Freehold	251.30	4 ¹ / ₂ storey terraced intermediate shophouse	Not available	27 June 1997 (#)	2,607,131.59
6	Lot 1246 to 1255, Seksyen 41, Lorong Haji Hussein 2, 50300 Kuala Lumpur on Grant No. 26312, 26313, 26314, 26315, 28311 to 28316, Lot No.1246 to 1255, Section 41, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur.	Investment (Currently rented out as parking facilities)	Freehold	2,047.24	10 pieces of land	Not applicable	7 September 2000	7,500,000.00
7	No. 163, Taman Melaka Raya, 75000 Melaka held under issue document of title H.S. (D) 4590 Kawasan Bandar XXXIX Daerah Melaka Tengah, Melaka.	Office	Leasehold Expiring-19 August 2075	148.64	3-storey terraced intermediate shophouse	Not available	12 August 2003	630,397.70
8	No. 162, Taman Melaka Raya, 75000 Melaka held under issue document of title H.S. (D) 4591, P.T. No. 93 Kawasan Bandar KB XXXIX, Daerah Melaka Tengah, Melaka.	Office	Leasehold Expiring-19 August 2075	329.24	3-storey terraced corner office building	Not available	28 February 1998	978,082.28
9	No. 442, Jalan Permatang Rawa, 14000 Bukit Mertajam, Pulau Pinang H.S. (M) 9, Lot No 1002 Mukim 7, Daerah Seberang Perai Tengah, Pulau Pinang.	Vacant	Freehold	143.00	3-storey terraced intermediate shop office	9+	22 July 2003	472,425.75
10	No. 32, Beta Ria Business Centre, Jalan Durian Emas 4, Off Jalan Dato' Siamang Gagap, 70100 Seremban held under issue document of title H.S. (D) 115103, P.T. No. 5350, Bandar Seremban, Daerah Seremban, Negeri Sembilan.	Office	Leasehold Expiring-21 November 2096	185.20	4-storey terraced corner shop/office	6+	18 February 2000	1,043,094.50

LIST OF PROPERTIES (cont'd)

No.	Location	Existing use	Tenure	Land Area (Sq.meters)	Type of building	Age of building	Latest date of Revaluation(#)/ Acquisition	Net Book value as at 30.6.2006(RM)
11	No. 26, Jalan Sultan Mahmud, 20400 Kuala Terengganu, Terengganu held under issue document of title Geran No. 6966, Lot No. 3320, Bandar Kuala Terengganu, Daerah Kuala Terengganu, Terengganu.	Office	Freehold	148.60	4-storey terraced intermediate shophouse	26+	23 February 1999	697,381.33
12	No. 8, Jalan Pinggiran Ukay 2, Medan Damai Ukay, Jalan Ulu Klang, 68000 Ampang held under issue document of title H.S. (M) 1276 P.T. No. 1807, Lot 4535 Mukim Hulu Kelang, Daerah Gombak, Selangor.	Office	Freehold	143.07	3-storey terraced end-lot shophouse	16+	26 June 1997 (#)	291,393.08
13	No. 32, Jalan Yap Ah Shak, Bangunan Kurnia, 50300 Kuala Lumpur held under issue document of title Grant No. 42162 Lot 2485 Seksyen 41, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur.	Office	Freehold	682.00	9 ¹ / ₂ -storey terraced corner office building	Not available	30 June 1997 (#)	16,453,819.97
14	Block B, Lot No. B2 Type A, No. 4-G, 4-1, 4-2 & 4-3, Jalan Prima 5, Pusat Niaga Metro Prima, Kepong, Kuala Lumpur held under individual title PN 30277 Lot 57646 Mukim Batu Daerah Kuala Lumpur, Negeri Wilayah Persekutuan.	Office	Leasehold Expiring-28 April 2096	178	4-storey shop office	Not available	5 October 2004	1,801,701.03
15	PT 357, PT 358 & PT 359, Seksyen 27, Bandar Kota Bharu, Jajahan Kota Bharu, Negeri Kelantan held under HSD 9/97, HSD 10/97 and HSD 11/97.	Office	Freehold	399.00	3 units 3-storey shophouse	1	6 September 2004	1,944,755.94
16	No. 22, Jalan Yap Ah Shak, 50300 Kuala Lumpur held under issue document of title Grant 22946 Lot 756, Section 41, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur.	Office	Freehold	148.64	2-storey terraced intermediate shophouse	Not available	27 May 1996	839,032.81

LIST OF PROPERTIES (cont'd)

No.	Location	Existing use	Tenure	Land Area (Sq.meters)	Type of building	Age of building	Latest date of Revaluation(#)/ Acquisition	Net Book value as at 30.6.2006(RM)
17	No. 25, Jalan Tiara 3, Bandar Baru Klang, 41150 Klang, Selangor held under issue document of title PM321, Lot 31537 (formerly HS(M) 14860,PT 21348), Mukim Kapar, Daerah Klang, Selangor Darul Ehsan.	Office	Leasehold Expiring- 8 May 2093	153.00	4-storey shoplot	8+	17 August 2004	1,523,031.42
18	Riverine Villas, Parcel No. KG109-3, Penthouse, Block K, Persiaran Palm Springs, Palm Springs Resort, Batu 13, Jalan Pantai, 71250 Port Dickson, held under issue document of title H.S. (D) 12973, P.T. 2924, Mukim Pasir Panjang, District Port Dickson, Negeri Sembilan.	Private use for staff	Freehold	Not applicable	Penthouse of a townhouse	7+	11 September 1995	369,807.58
19	No. 16 to 22, Persiaran Greentown 6, 30450 Ipoh, Perak held under issue document of title PN 14557 Lot 9391 ^N , PN147558 9392 ^N , PN147559 9393 ^N & PN147560 9394 ^N , Bandar Ipoh, Daerah Kinta, Perak.	Office	Leasehold Expiring- 21 November 2094	668	4 units 4-storey terraced intermediate shops/offices	7+	9 October 1997	3,189,244.61
20	No. 8 Jalan Persiaran Yayasan, 86000 Kluang, Johor held under issue document of title H.S. (D) 25258, P.T. No. B.7687, Bandar Baru Kluang, Daerah Kluang, Johor.	Office	Leasehold Expiring- 2 April 2089	163.504	4-storey terraced intermediate shophouse	14+	29 October 2001	633,430.63
21	No. 27, Jalan Sudirman 3, Bandar Seri Semantan, 28000 Temerloh, Pahang held under issue document of title H.S. (D) 16139, P.T. No. 9438 Bandar Temerloh, Daerah Temerloh, Pahang.	Office	Leasehold Expiring- 2 March 2096	120.77	3-storey terraced intermediate shop/office	5+	9 December 2000	433,934.99
22	No. 2E, Lorong Selamat, 10400 Pulau Pinang held under issue document of title Grant No. 15684, Lot No. 1018, Section 16 Daerah Timor Laut, Bandar George Town, Pulau Pinang.	Office	Freehold	123.70	Double storey terraced corner office building	Not available	30 September 1997	695,055.81
23	No. 2F, Lorong Selamat, 10400 Pulau Pinang held under issue document of title Grant No. 61391, Lot No. 1296, Section 16 Daerah Timor Laut, Bandar George Town, Pulau Pinang.	Office	Freehold	342.00	9-storey terraced corner office building	7+	30 September 1997	6,277,826.33

LIST OF PROPERTIES (cont'd)

No.	Location	Existing use	Tenure	Land Area (Sq.meters)	Type of building	Age of building	Latest date of Revaluation(#)/ Acquisition	Net Book value as at 30.6.2006(RM)
24	No. 18, 18A, 18B, 18C, 18D, 18E & 18F, Leboh Raya Darul Aman, 05100 Alor Setar, Kedah held under issue document of title H.S. (D) 5/94, P.T. 1785 Mukim Kota Setar, Daerah Kota Setar, Kedah.	Office	Freehold	2,521.01689	1 unit 6-storey terraced corner office block, 5 units 3-storey terraced intermediate shoplots & 1 unit 3-storey terraced end-lot shoplots	3+	10 December 2001	9,687,901.53
25	No. 27, Jalan Tiara 3, Bandar Baru Klang, 41150 Klang held under issue document of title H.S. (M) 14861, P.T. No. 21349, Tempat Bukit Raja, Mukim Kapar, Daerah Klang, Selangor Darul Ehsan.	Office	Leasehold Expiring- 8 May 2093	153.00	4-storey terraced intermediate shop/office	8+	30 July 1998	1,370,821.38
26	No. 28, 30, 32 & 34, Jalan Kamunting, 50300 Kuala Lumpur on Grant No. 29792, 29793, 29794 & 29795, Lot No. 575 to 578, Seksyen 41, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur.	Private parking for staff	Freehold	594.56	4 pieces of land	Not applicable	23 January 1996	4,021,780.00
27	Lot No. 14, Jalan Teknologi Taman Sains Selangor 1, Kota Damansara, Daerah Petaling, Selangor Darul Ehsan.	Vacant	Leasehold Expiring- 11 September 2062	21,811.84	1 piece of industrial land	Not applicable	30 December 2002	5,907,949.69
28	Menara Kurnia, No. 9 Jalan PJS 8/9, 46150 Petaling Jaya held under issue document of title H.S. (D) 63219, P.T. No. 54435, Mukim Damansara, Daerah Petaling, Selangor.	Office	Leasehold Expiring- 17 July 2091	26,759.66	25-storey office building	6+	14 March 1997	100,826,288.28
29	Lot No. B3-01-08, Jalan PJS 8/9, 46150 Petaling Jaya held under issue document of title HS(D) 63219, No. PT 12207, Mukim Damansara, Daerah Petaling, Selangor.	Vacant	Leasehold Expiring- 17 July 2091	127.18	1-storey shplot	6+	8 February 2006	602,090.75
30	Lot 47, Bandaran Berjaya, 88000 Kota Kinabalu, Sabah.	Office	Leasehold Expiring- 21 January 2901	157.93	4(+1)-storey corner shopoffice	Not Available	24 May 2005	1,587,580.53

Analysis of Holdings as at 31 OCTOBER 2006

Authorised Share Capital	: RM1,250,000,000
Issued & Paid Up Share Capital	: RM375,000,000
Class of Shares	: Ordinary shares of RM0.25 each
Voting rights	: One vote per ordinary share

Size of Holdings	No. of Holders		No. of Holdings		%	
	M'sian	Foreign	M'sian	Foreign	M'sian	Foreign
1 - 99	3	0	117	0	0.00	0.00
100 - 1,000	1,192	5	1,148,141	4,300	0.08	0.00
1,001 - 10,000	3,521	23	15,885,900	123,000	1.06	0.01
10,001 - 100,000	731	29	23,298,700	1,376,100	1.55	0.09
100,001 - 74,999,999	138	33	354,622,287	225,446,431	23.64	15.03
75,000,000 and above	3	0	878,095,024	0	58.54	0.00
Total	5,588	90	1,273,050,169	226,949,831	84.87	15.13

SHAREHOLDINGS ANALYSIS

Top Thirty Securities Account Holders as at 31 OCTOBER 2006

No.	Name	No. of Shares Held	%
1.	Kua Sian Kooi	413,009,800	27.53
2.	Cimsec Nominees (Tempatan) Sdn Bhd CIMB for Kua Sian Kooi	351,647,224	23.44
3.	D.O.A Entrepreneur Sdn Bhd	113,438,000	7.56
4.	Cartaban Nominees (Asing) Sdn Bhd Government of Singapore Investment Corporation Pte Ltd for Government of Singapore	41,049,000	2.74
5.	HSBC Nominees (Asing) Sdn Bhd Exempt An for Morgan Stanley & Co. Incorporated	38,627,400	2.58
6.	Cimsec Nominees (Tempatan) Sdn Bhd for Siew Lee Guan	37,000,000	2.47
7.	HSBC Nominees (Asing) Sdn Bhd Exempt An for Morgan Stanley & Co. International Limited	36,956,400	2.46
8.	Othman bin Abdul	34,795,468	2.32
9.	Law Ah Moy	21,000,000	1.40
10.	Harta Rigap Sdn Bhd	20,525,800	1.37
11.	Cartaban Nominees (Asing) Sdn Bhd Gov. of Singapore Investment Corporation Pte Ltd for Monetary Authority of Singapore (H)	18,641,600	1.24
12.	Cimsec Nominees (Tempatan) Sdn Bhd for Modal Sekata Sdn Bhd	18,500,000	1.23
13.	Citigroup Nominees (Asing) Sdn Bhd UBS Sec LLC for Armor Capital Partners. L.P	17,626,600	1.18
14.	Modal Sekata Sdn Bhd	17,382,600	1.16
15.	Quah Teong Moo	16,867,300	1.12
16.	Kumpulan Wang Amanah Pencen	14,600,000	0.97
17.	Kua Chung Sen	12,702,000	0.85
18.	Ke-Zan Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Modal Sekata Sdn Bhd	11,505,900	0.77

SHAREHOLDINGS ANALYSIS (cont'd)

No.	Name	No. of Shares Held	%
19.	Yeoh Cheng Hooi	10,027,319	0.67
20.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pheim Asset Management Sdn Bhd for Employees Provident Fund	10,003,600	0.67
21.	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yeoh Cheng Hooi	9,500,000	0.63
22.	HSBC Nominees (Asing) Sdn Bhd TNTC For Government of Singapore Investment Corporation Pte Ltd	8,150,600	0.54
23.	Modal Sekata Sdn Bhd	7,446,400	0.50
24.	HSBC Nominees (Asing) Sdn Bhd DZ Bank Intl for Multiadvisor Sicav-Ldys Global	7,400,000	0.49
25.	Low Heong Chow @ Loh Heong Chow	7,000,000	0.47
26.	HSBC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yeoh Cheng Hooi	6,300,000	0.42
27.	Harta Rigap Sdn Bhd	6,070,600	0.40
28.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston For Unidynamicfonds: Asia	6,000,000	0.40
29.	Cimsec Nominees (Tempatan) Sdn Bhd CIMB-Principal Asset Management Berhad for Employees Provident Fund Board	5,702,500	0.38
30.	Citigroup Nominees (Asing) Sdn Bhd UBS Sec LLC for White River Partners LP	5,113,000	0.34

Directors' Direct and Indirect Interest in the Company and its related corporations

Name	Direct Interest		Indirect Interest	
	No. of Shares Held	%	No. of Shares Held	%
Tan Sri Kua Sian Kooi	764,657,024	50.98		
Datuk Kua Chung Sen	12,702,000	0.84		
Dato' Low Heong Chow @ Loh Heong Chow	7,000,000	0.47		
Dato' Yeoh Cheng Hooi	25,827,319	1.72		
Dato' Othman Bin Abdul	34,795,468	2.32	113,438,000	7.56
Datuk Mohd Saufi Bin Abdullah	4,600,000	0.37		
Dato' Quah Teong Moo	17,867,300	1.19		
Leow Ming Fong @ Leow Min Fong	0	0		

Substantial Shareholders

Name	Direct Interest		Indirect Interest		Total Interest	
	No. of Shares Held	%	No. of Shares Held	%	No. of Shares Held	%
Tan Sri Kua Sian Kooi	764,657,024	50.98			764,657,024	50.98
D.O.A Entrepreneur Sdn Bhd	113,438,000	7.56			113,438,000	7.56
Dato' Othman Bin Abdul	34,795,468	2.32	113,438,000	7.56	148,233,468	9.88
			(via D.O.A Entrepreneur Sdn Bhd)			

NOTES

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FORM OF PROXY

No. of Shares Held _____

I/We _____ (Full name in block capitals)

of _____
 _____ (Full address)

being *a member(s) of KURNIA ASIA BERHAD (539435-K), hereby appoint(s) _____

of _____

or failing him _____

of _____

as my/our proxy to attend and vote for me/us on my/our behalf at the Fifth Annual General Meeting of the Company to be held at 9th Floor, Training Room, Auditorium, Menara Kurnia, Block B4, Leisure Commerce Square, No. 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan on 15 December 2006 at 10.00 a.m. or any adjournment thereof.

The proxy is to vote on the resolutions set in the Notice of Meeting as indicated with an 'X' in the appropriate spaces below. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

Resolutions	For	Against
Resolution 1 To receive the Director's Report and Audited Accounts for the year ended 30 June 2006 together with the Auditors' Report thereon.		
Resolution 2 To re-elect Tan Sri Kua Sian Kooi who retire by rotation pursuant to Article 117 of the Company's Articles of Association.		
Resolution 3 To re-elect Dato' Low Heong Chow @ Loh Heong Chow who retire by rotation pursuant to Article 117 of the Company's Articles of Association.		
Resolution 4 To re-elect Leow Ming Fong @ Leow Min Fong who retires pursuant to Article 108 of the Company's Articles of Association.		
Resolution 5 To re-appoint Messrs. KPMG as Auditors of the Company and to authorize the Directors to fix their remuneration.		
Resolution 6 Authority to issue shares.		
Resolution 7 Proposed Renewal of Shares Buy-back Authority.		

Dated this _____, 2006.

 Signature of Member or Affix Common Seal

NOTES

A member of the Company is entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company. In the case of a corporation, the instrument appointing the proxy must be either under the hand of its officer or attorney duly authorized in writing. The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited with the Company Secretary at the registered office of the Company at 25th Floor, Menara Kurnia, Block B4, Pusat Dagang Setia Jaya (Leisure Commerce Square), No. 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor Darul Ehsan, not less than forty eight (48) hours before the time for holding the Meeting or at any adjournment thereof.

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KURNIA ASIA BERHAD (539435-K)

Affix stamp here

Kurnia Asia Berhad (539435-K)
25th Floor, Menara Kurnia, Block B4,
Pusat Dagang Setia Jaya (Leisure Commerce Square),
No. 9, Jalan PJS 8/9, 46150 Petaling Jaya,
Selangor Darul Ehsan.

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ENGINEERING



MOTOR



TRAVEL

