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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

AS AT 30 JUNE 2007

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

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**MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)**

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the underwriting of life insurance and all classes of general insurance business.

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

HOLDING COMPANY

The holding company of the Company is Mayban Fortis Holdings Berhad ("MFHB"). The previous holding company was MNI Holdings Berhad. Both companies are incorporated in Malaysia.

RESULTS

	RM'000
Net profit for the financial year	<u>103,961</u>

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

In the opinion of the directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than changes in accounting policies and effects arising from the adoption of new and revised Financial Reporting Standards ("FRSs") as disclosed in Note 2.3 to the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

The directors do not recommend the payment of any final dividend in respect of the current financial year.

DIRECTORS

The directors who have held office during the year since the date of the last report and at the date of this report are as follows:

Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor	
Datuk Amirsham bin A. Aziz	
Dato' Haji Aminuddin bin Md Desa	
Datuk Haji Abdul Rahman bin Mohd Ramli	
Damis Jacobus Ziengs	(appointed on 14 June 2007)
Hans J. J. De Cuyper	(appointed on 2 July 2007)
Kenji Kojima	(resigned on 24 November 2006)
Filip Andre Lodewijck Coremans	(resigned on 15 February 2007)
Hugo Philip van Vledder	(resigned on 2 July 2007)

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is committed to ensuring that the highest standards of corporate governance are practised in the Company. This is a fundamental part in discharging their responsibilities to protect and enhance all stakeholders' values and the financial performance of the Company.

(a) Board Responsibilities

In discharging their duties, the Board is equally responsible to ensure compliance with the Insurance Act ("the Act") and Regulations, 1996 and Bank Negara Malaysia's ("BNM") Guidelines, including JPI/GPI 1: Duties and Responsibilities of Directors and Chief Executive of Insurers and other directives. They also have to comply with the tenets of corporate governance by adopting its best practices as stipulated under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers. Apart from their statutory responsibilities, the Board approves the Company's major investments, disposals and funding decisions. They ensure the implementation of appropriate systems to manage risks and also review and approve the strategies and financial objectives to be implemented by the management. These functions are carried out by the Board directly and/or through their various committees.

CORPORATE GOVERNANCE (CONTD.)**(a) Board Responsibilities (Contd.)**

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

Hence, the Company has an organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees and formal performance appraisals are done annually.

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

The Board met 7 times during the year and the attendance of the directors was as follows:

	Number of Board meetings	
	Attended	%
Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor (Chairman)	7/7	100
Datuk Haji Abdul Rahman bin Mohd Ramli	7/7	100
Datuk Amirsham A. Aziz	6/7	86
Dato' Haji Aminuddin Md Desa	7/7	100
Damis Jacobus Ziengs (appointed on 14 June 2007)	-	-
Hans J. J. De Cuyper (appointed on 2 July 2007)	-	-
Kenji Kojima (resigned on 24 November 2006)	4/4	100
Filip Andre Lodewijck Coremans (resigned on 15 February 2007)	5/5	100
Hugo Philip van Vledder (resigned on 2 July 2007)	7/7	100

(b) Management Accountability

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

(c) Corporate Independence

All material related party transactions have been disclosed in Note 29 to the financial statements.

CORPORATE GOVERNANCE (CONTD.)

(d) Internal Controls and Audit

The Board exercises overall responsibility for the Company's internal controls and its effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing them. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as to safeguard the assets of the Company and stakeholders' interests. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective action where necessary, is taken in a timely manner.

The internal audit reports are tabled at the first scheduled Audit Committee ("AC") meeting after the date of receipt of these reports. The internal audit function reports to the Board through the AC, and its findings and recommendations are communicated to senior management and all levels of staff concerned. The AC is established at the holding company's level.

The composition of the joint AC established at MFHB is as follows:

Raja Tan Sri Muhammad Alias bin Raja Muhd Ali (Chairman)
Independent Non-Executive Director

Damis Jacobus Ziengs
Non-Independent Non-Executive Director

Sulaiman bin Salleh
Independent Non-Executive Director

Datuk Haji Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

Datuk Dr Syed Othman bin Syed Hussin Alhabshi
Independent Non-Executive Director

The AC met 5 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(e) Risk Management

The Board takes responsibility in establishing the Risk Management Committee ("RMC"). The primary objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The Company established the RMC at the holding company's level. In discharging its responsibilities, the RMC is complemented by the Investment Committee of the Board and assisted by the Asset Liability Committee ("ALCO") of the management.

The risk management framework for the Company comprises three main components i.e. policy-making, monitoring and control and risk acceptance while the risk management approach would premise on three lines of defence i.e. risk-taking, risk control and coordinating units and internal audit. Risks have been classified into three main categories, which are made up of insurance risk, financial risk (including market risk, credit risk and balance sheet risk) and operational risk.

There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This is achieved through designated management functions and internal controls, which includes the setting up of operational risk limits for all core activities.

The composition of the joint RMC established at MFHB is as follows:

Tan Sri Mohamed Basir bin Ahmad (Chairman) (resigned on 28 July 2006)
Non-Independent Non-Executive Director

Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor (Chairman) (appointed as Chairman on 28 July 2006)
Independent Non-Executive Director

Raja Tan Sri Muhammad Alias bin Raja Muhd Ali
Independent Non-Executive Director

Petrus Bernadus Gerardus van Harten
Non-Independent Non-Executive Director

Datuk Haji Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

The RMC met 4 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(f) Nomination and Remuneration Committees

The Board also takes responsibility in establishing the Nomination Committee and Remuneration and Establishment Committee. The Company will continue to use the existing Nomination Committee and Remuneration and Establishment Committee of the ultimate holding company, Malayan Banking Berhad ("MBB") Group as part of its governance structure.

The primary objective of the Nomination Committee ("NC") is to establish a documented, formal and transparent procedure for the appointment of directors, chief executive officer and key senior officers. The committee is also responsible to assess the effectiveness of directors, the Board as a whole and the various committees of the Board, the chief executive officer and key senior officers.

The Remuneration and Establishment Committee, on the other hand, is responsible to provide a formal and transparent procedure for developing a remuneration policy for directors, chief executive officer and key senior officers and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

At MBB level, the Remuneration Committee is known as Remuneration and Establishment Committee ("REC")

The composition of the joint NC established at MBB is as follows:

Raja Tan Sri Muhammad Alias bin Raja Muhd Ali (Chairman)
Independent Non-Executive Director

Mohammad bin Abdullah
Independent Non-Executive Directors

Haji Mohd Hashir bin Abdullah
Independent Non-Executive Director

Datuk Haji Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor
Independent Non-Executive Director

The NC met 7 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(f) Nomination and Remuneration Committees (Contd.)

The composition of the joint REC established at MBB is as follows:

Mohammad bin Abdullah (Chairman)
Independent Non-Executive Director

Raja Tan Sri Muhammad Alias bin Raja Muhd Ali
Independent Non-Executive Director

Datuk Haji Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

Teh Soon Poh
Independent Non-Executive Director

The REC met 6 times during the year.

(g) Investment Committee

The Investment Committee ("IC") is set up at its fellow subsidiary, Mayban Life Assurance Berhad. However, its membership, roles and responsibilities transcend beyond Mayban Life Assurance Berhad to include and cover all operating companies under Mayban Fortis Holdings Berhad, which are Mayban General Assurance Berhad, Mayban Takaful Berhad, Malaysia National Insurance Berhad and Takaful Nasional Sdn. Berhad.

The objectives of the IC include to present an opinion on the long-term strategic investment policy including real estate, as a recommendation for the Risk Management Meeting ("RMM")/RMC/Board based on ALCO advice, to establish the tactical investment policy on the basis of the proposal by the investment manager and within the boundaries laid out in the Investment Management Mandates ("IMM"), to test the policy conducted by the investment manager against the strategic and tactical investment policy/asset management mandate, to evaluate and approve the operational policy conducted by the Investment Management ("IM") and also to evaluate, negotiate conditions with, appoint or dismiss external fund managers, custodians, banks and other financial intermediaries.

CORPORATE GOVERNANCE (CONTD.)

(g) Investment Committee (Contd.)

The IC reports to the Board of all the operating companies under Mayban Fortis Holdings Berhad.

The composition of the IC is as follows:

Datuk Amirsham A. Aziz (Chairman)
Non-Independent Non-Executive Director

Sulaiman Salleh
Independent Non-Executive Director

Datuk Haji Abdul Rahman Mohd Ramli
Non-Independent Non-Executive Director

Datuk Dr. Syed Othman Al-Habshi
Independent Non-Executive Director

Dato' Haji Aminuddin Md. Desa
Non-Independent Non-Executive Director

Hans J. J. De Cuyper
Non-Independent Non-Executive Director

Zainal Abidin Mohd Noor
Senior Management Team

Norlia Mat Yusof
Senior Management Team

See Toong Chow (appointed on 13 November 2006)
Senior Management Team

Haji Mohd Tarmidzi Ahmad Nordin (appointed on 7 March 2007)
Senior Management Team

Filip Andre Lodewijck Coremans (resigned on 14 February 2007)
Non-Independent Non-Executive Director

The IC met 4 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(h) Public Accountability

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

(i) Financial Reporting

The Board takes responsibility for presenting a balanced and comprehensive assessment of the Company's operations and prospects each time it releases its annual financial statements to shareholders. The AC of the Board assists by scrutinising the information to be disclosed, to ensure accuracy, adequacy and completeness.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, other than as may arise from the share options to be granted pursuant to the ultimate holding company's Maybank Group Employee Share Option Scheme ("ESOS").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors, or the fixed salary of a full time employee of the Company as disclosed in Note 22 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 29 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Company or its related corporations during the financial year were as follows:

	Number of Ordinary Share of RM1 Each			
	1 July 2006	Exercise of ESOS	Sold	30 June 2007
Ultimate holding company: Malayan Banking Berhad				
Direct Interest				
Datuk Amirsham A. Aziz	481,000	100,000	-	581,000
Datuk Haji Abdul Rahman bin Mohd Ramli	13,200	138,200	115,200	36,200
Indirect Interest				
Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor	10,000	-	-	10,000

	Number of Options over Ordinary Share of RM1 each				
	Option Price RM	Date of ESOS	Granted	Exercised	30 June 2007
Ultimate holding company: Malayan Banking Berhad					
Datuk Haji Abdul Rahman bin Mohd Ramli	9.23	01.09.2004	82,000	82,000	-
	9.92	14.11.2005	62,500	37,500	25,000
	10.19	14.11.2006	62,500	18,700	43,800
Datuk Amirsham A. Aziz	9.23	01.09.2004	430,000	100,000	330,000
	9.87	15.10.2004	120,000	-	120,000
	9.92	14.11.2005	120,000	-	120,000
	10.19	14.11.2006	120,000	-	120,000

The options over ordinary shares were granted pursuant to the Maybank Group Employee Share Option Scheme which are subject to the By-Laws governing their issue and expire on 25 August 2009.

Other than as disclosed above, none of the directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

- (a) Before the balance sheets and income statements of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount to be written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due;

OTHER STATUTORY INFORMATION (CONTD.)

(f) In the opinion of the directors: (Contd.)

- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f), contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

(g) Before the balance sheet and income statement were made out, the directors took reasonable steps to ascertain that there was adequate provision for incurred claims including Incurred But Not Reported ("IBNR") claims.

SIGNIFICANT EVENT

Details of a significant event are disclosed in Note 6(i) to the financial statements.

SUBSEQUENT EVENT

Details of a subsequent event are disclosed in Note 31 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 9 August 2007.

Megat Zaharuddin bin Megat
Mohd Nor

Aminuddin bin Md Desa

**MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)**

**STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Megat Zaharuddin bin Megat Mohd Nor and Aminuddin bin Md Desa, being two of the directors of Malaysia National Insurance Berhad, do hereby state that, in the opinion of the directors, the financial statements set out on pages 15 to 91 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 June 2007 and of the results and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 9 August 2007.

Megat Zaharuddin bin Megat
Mohd Nor

Aminuddin bin Md Desa

**STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Zainal Abidin Mohd Noor, being the officer primarily responsible for the financial management of Malaysia National Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 15 to 91 are in my opinion 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 Zainal Abidin bin Mohd Noor
at Kuala Lumpur in Wilayah Persekutuan
on 9 August 2007.

Zainal Abidin bin Mohd Noor

Before me,

Commissioner for Oaths

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**REPORT OF THE AUDITORS TO THE MEMBER OF
MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 15 to 91. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 30 June 2007 and of the results and the cash flows of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

Gloria Goh Ewe Gim
No. 1685/04/09(J)
Partner

Kuala Lumpur, Malaysia
9 August 2007

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 30 JUNE 2007

	Note	2007 RM'000	2006 RM'000
ASSETS			
General Insurance and Shareholder's Fund Assets			
Property, plant and equipment	3(a)	31,623	36,389
Investment properties	4(a)	1,700	618
Intangible assets	5	301	397
Subsidiaries	6	171,125	171,125
Due from related companies	7	2,377	378
Investments	8(a)	1,064,185	1,102,296
Loans	9(a)	52,918	31,308
Deferred tax assets	10	20,414	15,193
Trade and other receivables	11(a)	324,534	231,044
Tax recoverable		87,288	116,933
Cash and bank balances	12	50,407	61,729
		<u>1,806,872</u>	<u>1,767,410</u>
Life Insurance Fund Assets	Page 20	<u>4,309,450</u>	<u>4,066,735</u>
TOTAL ASSETS		<u>6,116,322</u>	<u>5,834,145</u>
EQUITY, INSURANCE FUNDS AND LIABILITIES			
Equity attributable to equity holder of the Company			
Share capital	13	152,151	152,151
Reserves		938,310	833,386
Total equity		<u>1,090,461</u>	<u>985,537</u>
Insurance funds			
Unearned premium reserves	14	160,060	167,199
Life Insurance Policyholders' Fund	15	4,073,629	3,868,872
Life Insurance Asset Revaluation Reserve	16	-	1,825
Total insurance funds		<u>4,233,689</u>	<u>4,037,896</u>

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET (CONTD.)
AS AT 30 JUNE 2007

	Note	2007 RM'000	2006 RM'000
Liabilities			
Provision for outstanding claims	17(a)	231,808	231,166
Due to related companies	7	18,625	17,098
Trade and other payables	18(a)	300,944	296,986
Tax payable		4,974	69,424
		<u>556,351</u>	<u>614,674</u>
Life Insurance Fund Liabilities	Page 20	235,821	196,038
Total Liabilities		<u>792,172</u>	<u>810,712</u>
TOTAL EQUITY, INSURANCE FUNDS AND LIABILITIES		<u>6,116,322</u>	<u>5,834,145</u>

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Share capital RM'000	Non- distributable Share premium RM'000	Distri- butable Retained profits RM'000	Total equity RM'000
At 1 April 2005	152,151	17,728	745,960	915,839
Net profit for the financial period	-	-	69,698	69,698
At 30 June 2006	<u>152,151</u>	<u>17,728</u>	<u>815,658</u>	<u>985,537</u>
At 1 July 2006				
As previously stated	152,151	17,728	815,658	985,537
Effect of adopting FRS140	-	-	963	963
At 1 July 2006 (restated)	<u>152,151</u>	<u>17,728</u>	<u>816,621</u>	<u>986,500</u>
Net profit for the financial year	-	-	103,961	103,961
At 30 June 2007	<u>152,151</u>	<u>17,728</u>	<u>920,582</u>	<u>1,090,461</u>

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000
Operating revenue	19	<u>1,160,257</u>	<u>1,537,137</u>
Shareholder's Fund:			
Investment income	20(a)	14,522	29,263
Other operating income/(expense) - net	21(a)	22,872	(878)
Management expenses	22(a)	<u>(1,690)</u>	<u>(3,310)</u>
		35,704	25,075
Surplus transferred from revenue accounts:			
- General insurance fund	Page 19	37,655	63,045
- Life insurance fund	Page 21	<u>38,000</u>	<u>40,000</u>
Profit before tax		111,359	128,120
Taxation	23(a)	<u>(7,398)</u>	<u>(58,422)</u>
Net profit for the financial year/period		<u>103,961</u>	<u>69,698</u>
Earnings per share - Basic (sen)	24	<u>68</u>	<u>46</u>

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Fire		Motor		Marine, aviation and transit		Miscellaneous		Total	
		1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000	1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000	1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000	1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000	1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000
Operating revenue	19									1,160,257	1,537,137
Gross premiums	19	60,687	78,562	120,748	158,882	116,902	171,669	301,230	308,421	599,567	717,534
Reinsurance		(39,586)	(54,980)	(6,216)	(8,830)	(104,064)	(152,816)	(255,238)	(254,528)	(405,104)	(471,154)
Net premiums		21,101	23,582	114,532	150,052	12,838	18,853	45,992	53,893	194,463	246,380
Increase/(decrease) in unearned premium reserves	14	5,957	10,587	2,349	(2,188)	1,378	(1,497)	(2,545)	(16,987)	7,139	(10,085)
Earned premiums		27,058	34,169	116,881	147,864	14,216	17,356	43,447	36,906	201,602	236,295
Net claims incurred	25	(9,959)	(12,504)	(77,197)	(96,133)	(3,400)	(3,037)	(30,528)	(33,174)	(121,084)	(144,848)
Net commissions		(1,278)	3,977	(10,091)	(12,780)	172	287	276	1,700	(10,921)	(6,816)
Underwriting surplus before management expenses		15,821	25,642	29,593	38,951	10,988	14,606	13,195	5,432	69,597	84,631
Management expenses	22(b)									(73,571)	(77,948)
Underwriting (deficit)/surplus										(3,974)	6,683
Investment income	20(b)									34,579	46,271
Other operating income - net	21(b)									7,050	10,091
Surplus transferred to Income Statement (Page 18)										37,655	63,045

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

LIFE INSURANCE FUND BALANCE SHEET
AS AT 30 JUNE 2007

	Note	2007 RM'000	2006 RM'000
ASSETS			
Property, plant and equipment	3(b)	9,077	6,482
Investment properties	4(b)	372,400	264,111
Intangible assets	5	2,579	1,817
Investments	8(b)(i)	3,463,036	3,418,039
Loans	9(b)	290,685	190,217
Deferred tax assets	10	-	2,987
Trade and other receivables	11(b)	130,171	67,116
Cash and bank balances	12	26,675	48,018
Tax recoverable		14,827	18,290
Investment-linked fund assets	26	-	49,658
LIFE INSURANCE FUND ASSETS		<u>4,309,450</u>	<u>4,066,735</u>
LIABILITIES			
Provision for outstanding claims	17(b)	11,301	8,287
Trade and other payables	18(b)	167,071	129,671
Tax payable		48,837	56,683
Deferred tax liabilities		8,612	-
Investment-linked fund liabilities	26	-	1,397
LIFE INSURANCE FUND LIABILITIES		<u>235,821</u>	<u>196,038</u>
LIFE INSURANCE POLICYHOLDERS' FUND	15	4,073,629	3,868,872
LIFE INSURANCE ASSET REVALUATION RESERVE	16	-	1,825
		<u>4,073,629</u>	<u>3,870,697</u>
TOTAL LIFE INSURANCE FUND LIABILITIES AND POLICYHOLDERS' FUND		<u>4,309,450</u>	<u>4,066,735</u>

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

LIFE INSURANCE FUND REVENUE ACCOUNT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	1.7.06 to 30.6.07 RM'000	1.4.05 to 30.6.06 RM'000
Gross premium	19	307,163	498,017
Reinsurance		(2,801)	(8,518)
Net premium		<u>304,362</u>	<u>489,499</u>
Benefits paid and payable:			
Death		(85,090)	(100,167)
Maturity		(61,546)	(67,526)
Surrender		(94,755)	(131,867)
Cash bonus		(36,388)	(37,377)
Annuities		(868)	(771)
Others		(52,559)	(4,305)
Reinsurance recoveries		4,017	9,859
		<u>(327,189)</u>	<u>(332,154)</u>
Net premium less benefits paid and payable		(22,827)	157,345
Commission and agency expenses		(34,731)	(57,240)
Management expenses	22(c)	<u>(43,598)</u>	<u>(46,984)</u>
		(101,156)	53,121
Investment income	20(c)	204,426	243,897
Other operating income/(expense) - net	21(c)	<u>167,759</u>	<u>(2,298)</u>
Surplus before tax		271,029	294,720
Taxation	23(b)(i)	<u>(28,272)</u>	<u>(18,600)</u>
Surplus after tax		242,757	276,120
Surplus after tax from Investment-linked Fund	26	<u>-</u>	<u>1,186</u>
		242,757	277,306
Life insurance policyholders' fund at beginning of financial year/period	15	3,868,872	3,631,566
Transfer to Income Statement (Page 18)	15	<u>(38,000)</u>	<u>(40,000)</u>
Life insurance policyholders' fund at end of financial year/period	15	<u>4,073,629</u>	<u>3,868,872</u>

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	111,359	128,120
Adjustments for:		
Depreciation of property, plant and equipment	5,989	16,010
Amortisation of intangible assets	373	-
Fair value adjustments on investment properties	(90,794)	-
Reversal of asset revaluation reserve	(1,825)	-
Net accretion of discounts	(9,477)	(6,419)
Gain on disposal of property, plant and equipment	(3)	(7,615)
(Decrease)/increase in unearned premium reserves	(7,139)	10,085
Decrease in Life Policyholders' fund	204,755	237,306
Decrease in Investment-linked fund	48,261	-
Provision for/(writeback of) doubtful debts	1,479	(5,950)
Credit balance written off	-	(3,329)
Gain on disposal of investments	(66,191)	(32,667)
Interest income	(244,056)	(325,197)
(Writeback of)/provision for diminution in value	(28,839)	24,837
Impairment loss in properties	1,121	-
(Writeback of)/provision for impairment loss in investment properties	(17,723)	8,331
(Loss)/profit from operations before changes in working capital	(92,710)	43,512
Changes in working capital:		
Increase in trade receivables	(74,495)	(18,000)
Increase in other receivables	(58,352)	(39,751)
Decrease in tax recoverable	33,109	-
Increase in loan receivable	(121,456)	(27,169)
(Increase)/decrease in amount due from related parties	(472)	17,472
(Decrease)/increase in other payables	(34,085)	63,668
Increase/(decrease) in outstanding claims	3,655	(23,529)
Increase in trade payables	56,445	36,686
Decrease in fixed deposits	113,007	70,292

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT (CONTD.)
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Proceeds from disposal of investments	756,132	507,812
Purchase of investments	(777,078)	(712,441)
Investment income received	239,010	316,846
Cash generated from operations	<u>42,710</u>	<u>235,398</u>
Tax paid	(69,928)	(123,012)
Net cash (used in)/generated from operating activities	<u>(27,218)</u>	<u>112,386</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of shares in a subsidiary	-	(76,000)
Proceeds from sale of property, plant and equipment	370	37,616
Purchase of property, plant and equipment	(5,210)	(7,675)
Purchase of intangible assets	(1,039)	-
Net cash used in investing activities	<u>(5,879)</u>	<u>(46,059)</u>
CASH FLOW FROM FINANCING ACTIVITY		
Dividend paid	-	(23,005)
Net cash used in financing activity	<u>-</u>	<u>(23,005)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(33,097)	43,322
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD/YEAR	110,179	66,857
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR/PERIOD (NOTE 12)	<u>77,082</u>	<u>110,179</u>

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

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2007

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and the principal place of business of the Company are located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur.

The holding and ultimate holding companies of the Company are Mayban Fortis Holdings Berhad ("MFHB") and Malayan Banking Berhad ("MBB") respectively, both of which are incorporated in Malaysia. MBB is a licensed commercial bank listed on the Main Board of Bursa Malaysia Securities Berhad.

The Company is principally engaged in the underwriting of life insurance and all classes of general insurance business. There have been no significant changes in the nature of the activities of the Company during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 9 August 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention, except for the valuation of investment properties that have been measured at their fair values, and comply with applicable Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and the relevant Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

At the beginning of the financial year, the Company had adopted new and revised Financial Reporting Standards ("FRSs") as described fully in Note 2.3.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies

(a) General Insurance Underwriting Results

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

(i) Premium Income

Premium income is recognised in a financial period in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial period upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the balance sheet date are accrued at that date.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same financial period as the original policy to which the reinsurance relates.

(ii) Unearned Premium Reserves

The short term Unearned Premium Reserves (“UPR”) represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial period. In determining the UPR at the balance sheet date:

- 25% method for marine cargo and aviation cargo, and transit business
- 1/24th method for all other classes of Malaysian policies reduced by the corresponding percentage of accounted gross direct business commissions and agency-related expenses not exceeding limits specified by BNM as follows:

Motor and bonds	10%
Fire, engineering, aviation and marine hull	15%
Medical and health	
- Stand-alone individuals	15%
- Group of 3 or more	10%
Workmen compensation and employers' liability	
- foreign worker	10%
- other	25%
Other classes	25%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(a) General Insurance Underwriting Results (Contd.)

(ii) Unearned Premium Reserves (Contd.)

- 1/8th method for all classes of overseas inward treaty business with a deduction of 20% for commissions.
- Non-annual policies are time apportioned over the period of the risks.

The long term UPR represents the portion of the net premiums of long term fire insurance policies underwritten, that relate to the unexpired periods of policies at the end of the financial year. The premium income is recognised on a time apportionment basis over the duration of the policies.

(iii) 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 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, incurred but not reported ("IBNR") at the balance sheet date, based on an annual actuarial valuation by a qualified actuary, using a mathematical method of estimation based on an actual claims development pattern.

(iv) 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.

(b) Life Insurance Underwriting Results

The surplus transferable from the life insurance fund to the income statement is based on the surplus determined by an annual actuarial valuation by a qualified actuary, of the long-term liabilities to policyholders.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(b) Life Insurance Underwriting Results (Contd.)

(i) Premium Income

Premium income represents premium recognised in the life insurance funds.

Premium income of the life insurance funds is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial period, all due premiums are accounted for to the extent that they can be reliably measured.

Outward reinsurance premiums are recognised in the same financial period as the original policies to which the reinsurance relates.

Net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract are reflected in the income statements of the investment-linked business. Net creation of units is recognised on a receipt basis.

(ii) Provision for Claims

Claims and settlement costs that are incurred during the financial period are recognised when a claimable event occurs and/or the insurer is notified.

Recoveries on reinsurance claims are accounted for in the same financial period as the original claims are recognised.

Claims and provisions for claims arising on life insurance policies, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

- maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of the contingency covered.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**2.2 Summary of Significant Accounting Policies (Contd.)****(b) Life Insurance Underwriting Results (Contd.)****(iii) Commission and Agency Expenses**

Commission and agency expenses, which are costs directly incurred in securing premiums on insurance policies net of income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the revenue account in the financial year.

(c) Other Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest Income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset except for interest on loans which are considered non-performing, i.e., when repayments are in arrears for more than three months, in which case, recognition of such interest is suspended with retrospective adjustment made to the date of first default. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

(ii) Dividend Income

Dividend income is recognised on a declared basis when the shareholder's right to receive payment is established.

(iii) Rental Income

Rental income is recognised on the accrual basis in accordance with the terms of the relevant agreements except where default in payment of rental has already occurred and rental 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(d) Employee benefits

(i) Short-term employee benefits

Wages, salaries, bonuses and social security contributions ("SOCSO") are recognised as an expense in the period in which the associated services are rendered by employees of the Company. 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 the absences occur.

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient funds to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to Employees Provident Fund ("EPF").

(e) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Subsequent to initial recognition, property, plant and equipment, except certain land and buildings, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore, is not depreciated.

Work-in-progress are also not depreciated as these assets are not available for use. Leasehold land is depreciated over the period of the respective leases. Buildings on leasehold land are depreciated over the shorter of 50 years or the remaining period of the respective leases.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(e) Property, Plant and Equipment and Depreciation (Contd.)

Depreciation on other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings on freehold land	2%
Office equipment, furniture and fittings	10% - 20%
Computer equipment	20% - 25%
Motor vehicles	20% - 25%

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit.

(f) Investment Properties

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both.

Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from the changes in fair value of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(g) Intangible Assets

Intangible assets in the Company comprise computer application software. The cost of significant development of knowledge-based application software to meet the unique requirements of the insurance business is capitalised and recognised as an intangible.

Software development costs are amortised from the date of system commissioning, on a straight line basis over its estimated useful economic life and assessed for impairment at each balance sheet date or whenever there is an indication the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible assets are reviewed at least at each financial year end. The amortisation expense is recognised in profit or loss.

Gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss when the asset is derecognised.

(h) Impairment of Non-financial Assets

The carrying amounts of assets, other than investment properties and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined from the cash generating unit ("CGU") to which the assets belong.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(h) Impairment of Non-financial Assets (Contd.)

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case such reversal is treated as a revaluation increase.

(i) Foreign Currencies

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(i) Foreign Currencies (Contd.)

(iii) Foreign Operation

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date.
- income and expenses for each income statement are translated at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions.
- all resulting exchange differences are taken to the foreign currency translation reserve within equity.

(j) Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit and surplus for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(j) Income Tax (Contd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as an income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(k) Cash and Cash Equivalents

For the purpose of the cash flow statements, cash and cash equivalents include cash and bank balances but do not include fixed and call deposits. The cash flow statements have been prepared using the indirect method.

(l) Financial Instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends, gains and losses relating to financial instruments classified as liabilities, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance and contracts is excluded from the scope of FRS 132 - Financial Instruments: Disclosure and Presentation.

(i) Malaysian Government Securities and Other Approved Investments

Malaysian government securities ("MGS") and other approved investments inclusive of negotiable certificate deposits ("NCD") and negotiable Islamic certificate deposits ("NICD") as specified by BNM are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to maturity date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(i) Financial Instruments (Contd.)

(ii) Government Guaranteed Bonds and Unquoted Corporate Bonds

Government guaranteed bonds and unquoted corporate bonds which carry a minimum rating of “BBB” or “P3” are valued at cost adjusted for amortisation of premiums and accretion of discounts, where applicable, calculated on the effective yield basis, from the date of purchase to their respective maturity dates. Any corporate bond with a lower rating is stated at the lower of cost and net realisable value.

(iii) Quoted Investments

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 of a particular investment is not regarded as temporary, specific provision is made against the value of that investment.

Cost is determined on the weighted average basis.

(iv) Unquoted Investments

Unquoted investments are stated at cost less any accumulated impairment losses.

Unquoted investments are valued at indicative market prices quoted in the secondary market.

(v) Investments of Investment-linked Business

All investments of the investment-linked business are stated at closing market prices or indicative market prices as at balance sheet date.

Any increase or decrease in value of investments is taken into the investment-linked business income statements.

Gain or loss arising from the disposal of the above investments is the difference between net disposal proceeds and its carrying amounts. Gain or loss on disposal of investment is recognised in profit or loss.

(vi) Derivative Financial Instruments

Derivative financial instruments are not recognised in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(l) Financial Instruments (Contd.)

(vii) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding balances as at the balance sheet date. Specific provisions are made for any premiums including agents, brokers and reinsurers' balances which remain outstanding for more than six months (except for motor premium balances which remain outstanding for more than 30 days) from the date on which they become receivable.

(viii) Payables

Payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

(ix) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and accounted for in equity in the period in which they are declared.

(m) Subsidiaries and Basis of Non-Consolidation

Investments in the wholly-owned subsidiaries of the Shareholder's Fund are stated at cost less provision for any impairment losses.

Subsidiaries are companies in which the Company has a long term equity interest and where it has the power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

As permitted under sub-paragraph 5(4)(a) of the Ninth Schedule of the Companies Act, 1965, no consolidated statements are prepared as the Company itself is a wholly-owned subsidiary of Mayban Fortis Holdings Berhad ("MFHB"), a company incorporated in Malaysia. The registered office of MFHB is located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur.

On disposal of investments in subsidiaries, the difference between net disposal proceeds and their carrying amount is recognised in the income statement and/or revenue accounts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

During the current financial year, the Company adopted the following new and revised FRSs mandatory for financial period beginning on or after 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effect of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
FRS 131	Interest in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earning Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 3, 108, 110, 116, 121, 127, 132, 133 and 136 does not result in significant changes in accounting policies of the Company. FRS 2, 5, 102, 128 and 131 are not applicable to the Company. The principal changes in accounting policies and their effects resulting from the adoption of the other new and revised FRSs are disclosed in Note 2.3(a) to 2.3(e).

At the date of authorisation of these financial statements, the following FRSs, amendments to FRS and Interpretations were issued but not yet effective and have not been applied by the Company:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

FRS, Amendments to FRS and Interpretation	Effective date
FRS 117: Leases	1 October 2006
FRS 124: Related Party Transactions	1 October 2006
FRS 139: Financial Instruments: Recognition and Measurement	Deferred
FRS 6: Exploration for and Evaluation of Mineral Resources	1 January 2007
FRS 107: Cash Flow Statements	1 July 2007
FRS 111: Construction Contracts	1 July 2007
FRS 112: Income Taxes	1 July 2007
FRS 118: Revenue	1 July 2007
FRS 120: Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 134: Interim Financial Reporting	1 July 2007
FRS 137: Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
Amendments to FRS 119 ²⁰⁰⁴ : Employee Benefits - Actuarial Gains and losses, Group Plans and Disclosure	1 January 2007
Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement Approach under FRS 129 ²⁰⁰⁴ - Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

The above FRSs, amendments to FRS and Interpretations are expected to have no significant impact on the financial statements of the Company upon their initial application.

The Company is exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 117, FRS 124 and FRS 139.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

The principal changes in accounting policies and their effects resulting from this adoption of the new and revised FRSs are as follows:

(a) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of the statement of changes in equity. FRS 101 requires disclosure on the face of the statement of changes in equity, total recognised income and expenses for the period.

This change in presentation has been applied retrospectively and certain comparatives have been restated. This change in presentation has no impact on the Company's financial statements.

(b) FRS 138: Intangible Assets

Prior to 1 July 2006, costs of internally developed software and computer application were recognised in Property, Plant and Equipment. Upon the adoption of FRS 138, such application software that are not an integral part of the computer hardware are recognised as intangible assets and are amortised from the date of system commissioning, on a straight line basis over its estimated remaining useful life. The carrying amount is assessed for impairment at each balance sheet date or whenever there is indication of impairment.

The reclassification has been applied retrospectively and certain comparatives have been restated. The effects on the balance sheets and income statements are set out in Note 2.3.(d)(i) and (ii) respectively.

(c) FRS 140: Investment Property

Prior to 1 July 2006, all properties of the Life funds were stated at cost less impairment loss in accordance with FRS 203₂₀₀₄ - Life Insurance Business. Investment properties were not depreciated.

Upon the adoption of FRS 140, properties held to earn rentals or for capital appreciation or both are classified as investment properties. In addition, investment properties are measured using the fair value model. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by professional independent valuer.

Investment properties are now stated at fair value. Gains and losses arising from changes in fair values are recognised in profit or loss in the year which they arise. The effects on the balance sheets and income statements are set out in Note 2.3(d)(i) and (ii) respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

(d) Summary of effects of adopting new and revised FRSs on the current financial year's financial statements

The following tables provide estimates of the extent to which each of the line items in the balance sheets and income statements for the financial year ended 30 June 2007 is higher or lower than it would have been had the previous policies been applied in the current financial year.

(i) Effects on balance sheet as at 30 June 2007

Description of Change	(Decrease)/Increase		
	FRS 138	FRS140	Total
	Note 2.3(b)	Note 2.3(c)	
	RM'000	RM'000	RM'000
General insurance and shareholder's funds			
Property, plant and equipment	(301)	(618)	(919)
Intangible assets	301	-	301
Investment properties	-	1,700	1,700
Deferred tax liabilities	-	292	292
Retained profits	-	790	790
Life fund			
Property, plant and equipment	(2,579)	1,664	(915)
Intangible assets	2,579	-	2,579
Investment properties	-	106,312	106,312
Deferred tax liabilities	-	8,638	8,638
Life policyholders' fund	-	99,338	99,338

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

(d) Summary of effects of adopting new and revised FRSs on the current financial year's financial statements (Contd.)

(ii) Effects on income statement as at 30 June 2007

Description of Change	Increase	
	FRS140	Total
	Note 2.3(c) RM'000	RM'000
General insurance and shareholder's funds		
Other operating income	100	100
Profit before tax	100	100
Profit after tax	73	73
Life fund		
Other operating income	108,289	108,289
Surplus before tax	107,945	107,945
Surplus after tax	99,309	99,309

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

(e) Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRS:

Description of change

	Previously stated RM'000	Increase/(Decrease)		Restated RM'000
		FRS 138 Note 2.3(b) RM'000	FRS140 Note 2.3(c) RM'000	
General insurance and shareholder's funds				
<u>At 1 July 2006</u>				
Investment properties	618	-	982	1,600
Deferred tax assets	15,193	-	(19)	15,174
Retained profits	815,658	-	963	816,621
<u>At 30 June 2006</u>				
Property, plant and equipmer	37,404	(397)	(618)	36,389
Intangible assets	-	397	-	397
Investment properties	-	-	618	618
Life fund				
<u>At 30 June 2006</u>				
Investment properties	266,088	-	(1,977)	264,111
Property, plant and equipmer	6,322	(1,817)	1,977	6,482
Intangible assets	-	1,817	-	1,817

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Changes in Estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least once at each financial year.

There were no material changes in estimates during the financial year except those set out in note 2.5(b)(i).

2.5 Significant Accounting Estimates and Judgements

(a) Critical Judgements Made in Applying Accounting Policies

The following are the judgements made by management in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(i) Liabilities of insurance business

The actuarial estimate of future contingent policy liabilities is computed in accordance with the standards and basis prescribed under the Insurance Act and Regulations, and uses a level net premium methodology with allowances for acquisition costs through the application of a zilmer or full preliminary term adjustment, whichever produces higher reserves.

For general claims, reserve is made upon notification of a new claim where the potential liability will be assessed based on information available. Where little or no information is available, a 'blind' reserve will be used. The blind reserves are based on class of business and are reviewed annually in line with Bank Negara Malaysia guidelines. As and when more information becomes available regarding a claim, the reserve is amended accordingly.

(ii) Classification between investment properties and property, plant and equipment

The Company has developed certain criteria based on FRS 140 in making judgement whether a property qualifies to be classified as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Significant Accounting Estimates and Judgements (Contd.)

(a) Critical Judgements Made in Applying Accounting Policies (Contd.)

(ii) Classification between investment properties and property, plant and equipment (Contd.)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of good or services or for administrative purpose. If these portions could be sold separately (or leased out separately under finance lease), the Company would account for the portion separately. If the portion could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purpose.

(b) Key Sources of Estimation Uncertainty

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

(i) Depreciation of property, plant and equipment

The cost of property, plant and equipment e.g elevators, lifts etc and the self-occupied properties are depreciated on a straight line basis over the estimated remaining useful lives of the assets. The Company estimates the useful lives of these property, plant and equipment to be within 15 to 20 years. These are common life expectations for building's property, plant and equipment.

(ii) Amortisation of intangible assets

The Company recognises the cost of significant development of knowledge-based software and computer applications as intangible assets with finite useful lives. Such software and application are unique to the requirements of the insurance business and the Company establish that these development cost will generate economic benefits beyond one year.

This software development cost are amortised from the date of the system commissioning, on a straight line basis over its estimated useful economic life and assessed for impairment at each balance sheet date or whenever there is an indication that the intangible assets may be impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Significant Accounting Estimates and Judgements (Contd.)

(b) Key Sources of Estimation Uncertainty (Contd.)

(iii) Deferred tax assets

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

3. PROPERTY, PLANT AND EQUIPMENT

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS

	#Land and buildings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Total RM'000
2007					
Cost					
At 1 July 2006	43,468	62,836	915	27,345	134,564
Additions	-	29	-	75	104
Disposals	-	-	(596)	-	(596)
At 30 June 2007	43,468	62,865	319	27,420	134,072
Accumulated depreciation					
At 1 July 2006	10,479	60,421	544	26,059	97,503
Charge for the financial year	1,154	1,679	2	680	3,515
Disposals	-	-	(229)	-	(229)
At 30 June 2007	11,633	62,100	317	26,739	100,789
Accumulated impairment loss					
At 1 July 2006	672	-	-	-	672
Charge for the financial year	988	-	-	-	988
At 30 June 2007	1,660	-	-	-	1,660
Net carrying amount	30,175	765	2	681	31,623

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)

	#Land and buildings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Total RM'000
2006					
Cost					
At 1 April 2005	58,334	62,179	1,188	27,304	149,005
Additions	-	666	451	52	1,169
Disposals	(14,866)	(9)	(724)	(11)	(15,610)
At 30 June 2006	43,468	62,836	915	27,345	134,564
Accumulated depreciation					
At 1 April 2005	12,206	49,759	575	24,912	87,452
Charge for the financial year	826	10,672	329	1,157	12,984
Disposals	(2,553)	(10)	(360)	(10)	(2,933)
At 30 June 2006	10,479	60,421	544	26,059	97,503
Accumulated impairment loss					
At 1 April 2005/ 30 June 2006	672	-	-	-	672
Net carrying amount	32,317	2,415	371	1,286	36,389

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)

Breakdown for land and buildings:

	Freehold land RM'000	Buildings on freehold land RM'000	Leasehold land 50 years or more RM'000	Buildings on leasehold land 50 years or more RM'000	Total RM'000
2007					
Cost					
At 1 July 2006/ 30 June 2007	3,697	8,932	24,978	5,861	43,468
Accumulated depreciation					
At 1 July 2006	1,024	2,204	4,190	3,061	10,479
Charge for the financial year	-	60	304	790	1,154
Reclassification	(1,024)	1,024	-	-	-
At 30 June 2007	-	3,288	4,494	3,851	11,633
Accumulated impairment loss					
At 1 July 2006	-	-	-	672	672
Charge for the financial year	-	-	-	988	988
At 30 June 2007	-	-	-	1,660	1,660
Net carrying amount	3,697	5,644	20,484	350	30,175

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)

Breakdown for land and buildings: (Contd.)

	Freehold land RM'000	Buildings on freehold land RM'000	Leasehold land 50 years or more RM'000	Leasehold land 50 years or more RM'000	Total RM'000
2006					
Cost					
At 1 April 2005	3,697	8,932	39,664	6,041	58,334
Disposals	-	-	(14,686)	(180)	(14,866)
At 30 June 2006	3,697	8,932	24,978	5,861	43,468
Accumulated depreciation					
At 1 April 2005	1,024	1,981	6,263	2,938	12,206
Charge for the financial year	-	223	430	173	826
Disposals	-	-	(2,503)	(50)	(2,553)
At 30 June 2006	1,024	2,204	4,190	3,061	10,479
Accumulated impairment loss					
At 1 April 2005/ 30 June 2006	-	-	-	672	672
Net carrying amount	2,673	6,728	20,788	2,128	32,317

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(b) LIFE INSURANCE FUND

	Freehold self- occupied Properties RM'000	Computer equipment RM'000	Office equipment, furniture and fittings RM'000	Work-in- progress RM'000	Total RM'000
<u>2007</u>					
Cost					
At 1 July 2006	2,105	15,857	7,409	-	25,371
Additions	-	4,019	-	1,087	5,106
At 30 June 2007	<u>2,105</u>	<u>19,876</u>	<u>7,409</u>	<u>1,087</u>	<u>30,477</u>
Accumulated depreciation					
At 1 July 2006	-	12,276	6,485	-	18,761
Charge for the financial year	276	1,921	277	-	2,474
At 30 June 2007	<u>276</u>	<u>14,197</u>	<u>6,762</u>	<u>-</u>	<u>21,235</u>
Accumulated impairment loss					
At 1 July 2006	128	-	-	-	128
Charge for the financial year	37	-	-	-	37
At 30 June 2007	<u>165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165</u>
Net carrying amount	<u>1,664</u>	<u>5,679</u>	<u>647</u>	<u>1,087</u>	<u>9,077</u>

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(b) LIFE INSURANCE FUND (CONTD.)

	Freehold self- occupied Properties RM'000	Computer equipment RM'000	Office equipment, furniture and fittings RM'000	Work-in- progress RM'000	Total RM'000
<u>2006</u>					
Cost					
At 1 April 2005	-	14,071	8,007	387	22,465
Additions	-	1,804	228	4,474	6,506
Disposals	-	(18)	(6)	(280)	(304)
Reclassification	-	-	(820)	820	-
Transfer	-	-	-	(5,401)	(5,401)
Transfer from investment property (Effect of FRS 140)	2,105	-	-	-	2,105
At 30 June 2006	<u>2,105</u>	<u>15,857</u>	<u>7,409</u>	<u>-</u>	<u>25,371</u>
Accumulated depreciation					
At 1 April 2005	-	9,783	5,976	-	15,759
Charge for the financial period	-	2,511	515	-	3,026
Disposals	-	(18)	(6)	-	(24)
At 30 June 2006	<u>-</u>	<u>12,276</u>	<u>6,485</u>	<u>-</u>	<u>18,761</u>
Accumulated impairment loss					
At 1 April 2005	-	-	-	-	-
Transfer from investment property (Effect of FRS 140)	128	-	-	-	128
At 30 June 2006	<u>128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128</u>
Net carrying amount	<u>1,977</u>	<u>3,581</u>	<u>924</u>	<u>-</u>	<u>6,482</u>

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(b) LIFE INSURANCE FUND (CONTD.)

The titles to certain leasehold and freehold land and buildings of the Life Insurance Fund costing RM305,000 (2006:RM305,000) and General Insurance and Shareholder's funds costing RM7,121,000 (2006: RM14,666,000) are in the process of being transferred to the Company. Risks and rewards and effective title to the land and buildings have been passed to the Company upon unconditional completion of the sale and purchase agreements. The Company has submitted all the relevant documents to the land authorities and is awaiting the process and formalities for the transfer of title to be completed by the authorities.

4. INVESTMENT PROPERTIES

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS

	Leasehold Buildings RM'000	Total RM'000
At 1 July 2006	618	618
Effect of adopting FRS 140	982	982
At 1 July 2006 (restated)	<u>1,600</u>	<u>1,600</u>
Fair value adjustments (Effect of FRS 140)	100	100
At 30 June 2007	<u>1,700</u>	<u>1,700</u>
At 1 April 2005/30 June 2006	<u>618</u>	<u>618</u>

(b) LIFE INSURANCE FUND

	Freehold Land and Buildings RM'000	Leasehold Land and Buildings RM'000	Total RM'000
Carrying amount/cost			
At 1 July 2006	189,083	92,623	281,706
Fair value adjustments (Effect of FRS 140)	<u>112,706</u>	<u>(22,012)</u>	<u>90,694</u>
At 30 June 2007	<u>301,789</u>	<u>70,611</u>	<u>372,400</u>
At 1 April 2005	203,895	70,152	274,047
(Disposal)/addition	(12,707)	22,471	9,764
Transfer to property, plant and equipment (Effect of FRS 140)	<u>(2,105)</u>	<u>-</u>	<u>-</u>
At 30 June 2006	<u>189,083</u>	<u>92,623</u>	<u>283,811</u>

4. INVESTMENT PROPERTIES (CONTD.)**(b) LIFE INSURANCE FUND (CONTD.)**

	Freehold Land and Buildings RM'000	Leasehold Land and Buildings RM'000	Total RM'000
Accumulated impairment loss			
At 1 July 2006	-	17,595	17,595
Writeback of impairment (Effect of FRS 140)	-	(17,595)	(17,595)
At 30 June 2007	-	-	-
At 1 April 2005	-	9,392	9,392
Provision for impairment	128	8,203	8,331
Transfer to property, plant and equipment (Effect of FRS 140)	(128)	-	-
At 30 June 2006	-	17,595	17,723
Carrying amount			
At 30 June 2007	301,789	70,611	372,400
At 30 June 2006	189,083	75,028	264,111

The titles to certain leasehold land and buildings included in investment properties of the Life Insurance Fund costing RM21,388,000 (2006: RM18,394,000) and the General Insurance and Shareholder's Funds costing RM457,000 (2006: RM457,000) are in the process of being transferred to the Company. Risks and rewards and effective title to the leasehold land have been passed to the Company upon unconditional completion of the sale and purchase agreements. The Company has submitted all the relevant documents to the land authorities and is awaiting the process and formalities for the transfer of title to be completed by the authorities.

5. INTANGIBLE ASSETS

	Software development costs			
	General and Shareholder's funds		Life fund	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cost				
At 1 July 2006/1 April 2005	13,849	13,558	12,160	12,160
Additions	168	291	871	-
At 30 June	14,017	13,849	13,031	12,160

5. INTANGIBLE ASSETS (CONTD.)

	Software Development Costs			
	General and Shareholder's funds		Life fund	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Accumulated amortisation				
At 1 July 2006/1 April 2005	13,452	13,213	10,343	10,154
Amortisation	264	239	109	189
At 30 June	<u>13,716</u>	<u>13,452</u>	<u>10,452</u>	<u>10,343</u>
Net carrying amount	<u>301</u>	<u>397</u>	<u>2,579</u>	<u>1,817</u>

6. SUBSIDIARIES

	General Insurance and Shareholder's Funds	
	2007	2006
	RM'000	RM'000
Unquoted shares, at cost	415,978	415,978
Provision for impairment loss	(244,853)	(244,853)
	<u>171,125</u>	<u>171,125</u>

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Effective interests (%)		Principal activities
		2007	2006	
Takaful Nasional Sdn. Berhad	Malaysia	100	100	Underwriting of Family and General Takaful businesses
MNI Offshore Insurance (L) Ltd.	Malaysia	100	100	Offshore general reinsurance business and the provision of bureau services to offshore reinsurers in the Federal Territory of Labuan

6. SUBSIDIARIES (CONTD.)

Details of the subsidiaries are as follows (Contd.):

Name of company	Country of incorporation	Effective interests (%)		Principal activities
		2007	2006	
MNI Life International (L) Ltd. (Note (i))	Malaysia	100	100	Offshore life insurance business
Double Care Sdn. Bhd.	Malaysia	100	100	Investment holding
Peram Ranum Berhad	Malaysia	100	100	Dormant

(i) Member Voluntary Winding-Up of a subsidiary

On 10 April 2007, MNI Life International (L) Ltd. ("MNILIL") commenced its Member Voluntary Winding-Up pursuant to a special resolution under Section 131(1) of the Offshore Companies Act, 1990 and Section 254(1)(b) of the Companies Act, 1965. MNILIL shall be officially dissolved 3 months after the final meeting on 15 June 2007.

7. DUE FROM/TO RELATED COMPANIES**GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	2007 RM'000	2006 RM'000
Due from holding company	-	1
Due from subsidiaries	-	377
Due from related companies	2,377	-
	<u>2,377</u>	<u>-</u>
Due to penultimate holding company	-	7
Due to holding company	962	-
Due to subsidiaries	16,610	17,091
Due to related companies	1,053	-
	<u>18,625</u>	<u>17,098</u>

The amounts due from subsidiaries and related companies are unsecured, non-trade in nature, interest-free and have no fixed terms of repayment.

8. INVESTMENTS

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS

	2007		2006	
	Carrying value RM'000	Market/ indicative value RM'000	Carrying value RM'000	Market/ indicative value RM'000
Malaysian Government Securities -				
at cost	32,809		43,828	
Net amortisation of premiums	<u>(1,035)</u>		<u>(2,144)</u>	
	<u>31,774</u>	<u>32,267</u>	<u>41,684</u>	<u>41,077</u>
Malaysian Government Guaranteed Bonds -				
at cost	68,694		-	
Net amortisation of premiums	<u>(1,304)</u>		<u>-</u>	
	<u>67,390</u>	<u>67,811</u>	<u>-</u>	<u>-</u>
Malaysian Government Investment Issues -				
at cost	26,491		22,322	
Net accretion of discounts	<u>2,843</u>		<u>1,709</u>	
	<u>29,334</u>	<u>30,272</u>	<u>24,031</u>	<u>23,671</u>
Quoted in Malaysia:				
Equity securities of corporations -				
at cost	117,658		197,684	
Provision for diminution in value	<u>(309)</u>		<u>(6,109)</u>	
	<u>117,349</u>	<u>188,103</u>	<u>191,575</u>	<u>204,609</u>
Unit trusts - at cost	8,085		1,581	
Provision for diminution in value	<u>(409)</u>		<u>(720)</u>	
	<u>7,676</u>	<u>8,103</u>	<u>861</u>	<u>861</u>

8. INVESTMENTS**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)**

	2007		2006	
	Carrying value RM'000	Market/ indicative value RM'000	Carrying value RM'000	Market/ indicative value RM'000
Unquoted:				
Equity securities of corporations - at cost	63,500		47,500	
Provision for diminution in value	<u>(2,696)</u>		<u>(2,696)</u>	
	<u>60,804</u>	<u>60,804</u>	<u>44,804</u>	<u>44,804</u>
Corporate debt securities - at cost	407,309		424,223	
Net accretion of discounts	19,228		21,889	
Provision for diminution in value	<u>(24,537)</u>		<u>(22,953)</u>	
	<u>402,000</u>	<u>410,675</u>	<u>423,159</u>	<u>393,764</u>
Unquoted:				
Investment-linked funds - at cost	-	-	39,987	48,261
Negotiable Certificates of Deposits	20,956		26,013	
Net amortisation of premiums	<u>(203)</u>		<u>(64)</u>	
	<u>20,753</u>	<u>20,753</u>	<u>25,949</u>	<u>25,949</u>
Structured deposits with:				
Licensed banks	<u>100,000</u>		<u>-</u>	
Fixed and call deposits with:				
Licensed banks	97,898		144,056	
Other financial institutions	<u>129,207</u>		<u>166,190</u>	
	<u>227,105</u>		<u>310,246</u>	
Total investments - General Insurance and Shareholder's Funds	<u>1,064,185</u>		<u>1,102,296</u>	

8. INVESTMENTS**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)**

(i) Maturity structure of investments, at cost (equity investments, warrants and unit trusts) is as follows:

2007	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
Malaysian Government Securities	8,062	4,526	-	20,222	32,809
Malaysian Government Guaranteed Bonds	50,000	-	-	18,694	68,694
Malaysian Government Investment Issues	-	-	26,491	-	26,491
Unquoted bonds/loan stocks of corporations - In Malaysia	50,355	77,249	90,745	188,960	407,309
Negotiable Certificates of Deposits	20,956	-	-	-	20,956
Structured deposits	100,000	-	-	-	100,000
Fixed and call deposits	184,105	-	43,000	-	227,105
2006					
Malaysian Government Securities	11,019	9,506	3,082	20,221	43,828
Malaysian Government Investment Issues	-	-	-	22,322	22,322
Unquoted bonds/loan stocks of corporations - In Malaysia	96,244	124,243	65,591	138,145	424,223
Negotiable Certificates of Deposits	26,013	-	-	-	26,013
Fixed and call deposits	289,290	-	20,956	-	310,246

8. INVESTMENTS**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)**

(ii) The weighted average rates of return of investments at the balance sheet date were as follows:

	2007	2006
	%	%
	per annum	per annum
Malaysian Government Securities	3.82	5.24
Malaysian Government Guaranteed Bonds	4.14	-
Malaysian Government Investment Issues	4.20	4.27
Unquoted bonds/loan stock of corporations		
- In Malaysia	3.90	4.70
Negotiable Certificates of Deposits	4.79	5.75
Structured deposits	5.48	-
Fixed and call deposits	3.70	3.39

(b)(i) LIFE INSURANCE FUND: NON INVESTMENT-LINKED

	2007		2006	
	Carrying	Market/	Carrying	Market/
	value	indicative	value	indicative
	RM'000	value	RM'000	value
		RM'000		RM'000
Malaysian Government Securities -				
at cost	302,030		312,105	
Net amortisation of premiums	(6,964)		(6,353)	
	<u>295,066</u>	<u>324,278</u>	<u>305,752</u>	<u>310,654</u>
Malaysian Government Investment Issues -				
at cost	19,524		29,185	
Net accretion of discounts	9,814		81	
	<u>29,338</u>	<u>31,740</u>	<u>29,266</u>	<u>28,930</u>
Cagamas papers - at cost	158,113		142,776	
Net accretion of discounts	12		25	
	<u>158,125</u>	<u>167,268</u>	<u>142,801</u>	<u>139,550</u>

8. INVESTMENTS

(b)(i) LIFE INSURANCE FUND: NON INVESTMENT-LINKED (CONTD.)

	2007		2006	
	Carrying value RM'000	Market/ indicative value RM'000	Carrying value RM'000	Market/ indicative value RM'000
Quoted in Malaysia:				
Equity securities of corporations - at cost	313,717		472,782	
Provision for diminution in value	<u>(264)</u>		<u>(23,354)</u>	
	<u>313,453</u>	<u>438,133</u>	<u>449,428</u>	<u>465,794</u>
Unit trusts - at cost	27,760		17,556	
Provision for diminution in value	<u>(3,105)</u>		<u>(4,325)</u>	
	<u>24,655</u>	<u>24,655</u>	<u>13,231</u>	<u>13,231</u>
Unquoted:				
Equity securities of corporation - at cost	86,359		58,455	
Provision for diminution in value	<u>(85)</u>		<u>(85)</u>	
	<u>86,274</u>	<u>86,274</u>	<u>58,370</u>	<u>58,370</u>
Corporate debt securities - at cost	1,725,367		1,512,723	
Net accretion of discounts	30,538		28,584	
Provision for diminution in value	<u>(25,619)</u>		<u>(24,046)</u>	
	<u>1,730,286</u>	<u>1,830,371</u>	<u>1,517,261</u>	<u>1,531,810</u>
Negotiable Certificates of Deposits	330,339		339,324	
Net accretion of discounts	<u>6,717</u>		<u>1,069</u>	
	<u>337,056</u>	<u>337,056</u>	<u>340,393</u>	<u>340,393</u>

8. INVESTMENTS (CONTD.)**(b)(i) LIFE INSURANCE FUND: NON INVESTMENT-LINKED (CONTD.)**

	2007		2006	
	Carrying value RM'000	Market/ indicative value RM'000	Carrying value RM'000	Market/ indicative value RM'000
Structured deposits with:				
Licensed banks	<u>200,000</u>		<u>-</u>	
Fixed and call deposits with:				
Licensed banks	256,046		306,359	
Other financial institutions	<u>32,737</u>		<u>255,178</u>	
	<u>288,783</u>		<u>561,537</u>	
Total investments - Life Insurance Fund: Non Investment-linked	<u>3,463,036</u>		<u>3,418,039</u>	

(i) Maturity structure of investments, at cost (equity investments, warrants, property and unit trusts) is as follows:

2007	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
Malaysian Government Securities	57,818	45,511	18,558	180,143	302,030
Malaysian Government Investment Issues	-	-	-	19,524	19,524
Cagamas bonds	-	56,347	31,430	70,336	158,113
Unquoted bonds/loan stock of corporations					
- In Malaysia	53,215	194,223	516,117	961,812	1,725,367
Structured deposits	-	50,000	60,000	90,000	200,000
Negotiable Certificates of Deposits	-	155,748	156,995	17,596	330,339
Fixed and call deposits	<u>120,997</u>	<u>10,786</u>	<u>58,000</u>	<u>99,000</u>	<u>288,783</u>

8. INVESTMENTS (CONTD.)**(b)(i) LIFE INSURANCE FUND: NON INVESTMENT-LINKED (CONTD.)**

2006	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
Malaysian Government Securities	10,075	99,301	4,028	198,701	312,105
Malaysian Government Investment Issues	-	-	-	29,185	29,185
Cagamas bonds	-	20,000	36,346	86,430	142,776
Unquoted bonds/loan stock of corporations					
- In Malaysia	91,857	229,412	216,276	975,178	1,512,723
Negotiable Certificates of Deposits	36,915	205,748	79,065	17,596	339,324
Fixed and call deposits	560,193	-	-	1,344	561,537

(ii) The weighted average rates of return of investments at the balance sheet date were as follows:

	2007 % per annum	2006 % per annum
Malaysian Government Securities	2.81	1.82
Malaysian Government Investment Issues	0.40	3.18
Cagamas bonds	0.61	4.67
Unquoted bonds/loan stock of corporations		
- In Malaysia	4.78	5.56
Structured deposits	4.54	-
Negotiable Certificates of Deposits	4.85	4.29
Fixed and call deposits	3.24	3.47

8. INVESTMENTS (CONTD.)**(b)(ii) LIFE INSURANCE FUND: INVESTMENT-LINKED**

	2007		2006	
	Carrying value RM'000	Market/ indicative value RM'000	Carrying value RM'000	Market/ indicative value RM'000
Fixed and call deposits with:				
Licensed banks	-		2,688	
Other financial institutions	-		45,891	
	<u>-</u>		<u>48,579</u>	
Total investments – Life Insurance Fund: Investment-linked (Note 26)	<u>-</u>		<u>48,579</u>	

9. LOANS**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	2007 RM'000	2006 RM'000
Staff loans (secured)	3,227	429
Other secured loans	49,821	31,212
Unsecured loans	203	-
	<u>53,251</u>	<u>31,641</u>
Provision for doubtful debts	(333)	(333)
	<u>52,918</u>	<u>31,308</u>
Receivable within 1 year	909	8,386
Receivable after 1 year	52,009	22,922
	<u>52,918</u>	<u>31,308</u>

(b) LIFE INSURANCE FUND

	2007 RM'000	2006 RM'000
Policy loans	149,769	144,540
Mortgage loans	790	11,503
Staff loans (secured)	27,265	18,056
Other secured loans	118,923	21,676
	<u>296,747</u>	<u>195,775</u>

9. LOANS (CONTD.)**(b) LIFE INSURANCE FUND (CONTD.)**

	2007	2006
	RM'000	RM'000
Interest-in-suspense	(5,786)	(5,394)
Provision for doubtful debts	(276)	(164)
	<u>290,685</u>	<u>190,217</u>
Receivable within 1 year	20,359	2,375
Receivable after 1 year	270,326	187,842
	<u>290,685</u>	<u>190,217</u>

10. DEFERRED TAX ASSETS/(LIABILITIES)

	General Insurance and Shareholder's Funds		Life Insurance Fund	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
At 1 July 2006/1 April 2005	15,193	15,534	2,987	191
Effect of FRS 140	(19)	-	-	-
At 1 July 2006 (restated)/ 1 April 2006	15,174	15,534	2,987	191
Recognised in income statement (Note 23)	5,240	(341)	(11,599)	2,796
At 30 June	<u>20,414</u>	<u>15,193</u>	<u>(8,612)</u>	<u>2,987</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax liabilities shown in the balance sheet have been determined after appropriate offsetting.

	General Insurance and Shareholder's Funds		Life Insurance Fund	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Presented after appropriate offsetting as follows:				
Deferred tax liabilities	2,124	(6,514)	(9,389)	(2,703)
Deferred tax assets	18,290	21,707	777	5,690
	<u>20,414</u>	<u>15,193</u>	<u>(8,612)</u>	<u>2,987</u>

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

10. DEFERRED TAX ASSETS/(LIABILITIES) (CONTD.)**Deferred Tax Liabilities****GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	Accelerated capital allowances RM'000	Net accretion of discount RM'000	Total RM'000
2007			
At 1 July 2006	(509)	(6,005)	(6,514)
Recognised in the income statement	1,281	7,357	8,638
At 30 June 2007	<u>772</u>	<u>1,352</u>	<u>2,124</u>
2006			
At 1 April 2005	(3,421)	(4,190)	(7,611)
Recognised in the income statement	2,912	(1,815)	1,097
At 30 June 2006	<u>(509)</u>	<u>(6,005)</u>	<u>(6,514)</u>

LIFE INSURANCE FUND

	Accelerated capital allowances RM'000	Net accretion of discount RM'000	Fair value adjustments RM'000	Others RM'000	Total RM'000
2007					
At 1 July 2006	(744)	(1,959)	-	-	(2,703)
Recognised in the income statement	134	1,959	(8,265)	(514)	(6,686)
At 30 June 2007	<u>(610)</u>	<u>-</u>	<u>(8,265)</u>	<u>(514)</u>	<u>(9,389)</u>
2006					
At 1 April 2005	(397)	(1,966)	-	-	(2,363)
Recognised in the income statement	(347)	7	-	-	(340)
At 30 June 2006	<u>(744)</u>	<u>(1,959)</u>	<u>-</u>	<u>-</u>	<u>(2,703)</u>

10. DEFERRED TAX ASSETS/(LIABILITIES) (CONTD.)**Deferred Tax Assets****GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	Provision for diminution in investments RM'000	Provision for doubtful debts RM'000	Others RM'000	Total RM'000
2007				
At 1 July 2006	9,101	11,125	1,481	21,707
Recognised in the income statement	(8,180)	198	4,565	(3,417)
At 30 June 2007	<u>921</u>	<u>11,323</u>	<u>6,046</u>	<u>18,290</u>
2006				
At 1 April 2005	8,448	13,132	1,565	23,145
Recognised in the income statement	653	(2,007)	(84)	(1,438)
At 30 June 2006	<u>9,101</u>	<u>11,125</u>	<u>1,481</u>	<u>21,707</u>

LIFE INSURANCE FUND

	Provision for diminution in investments RM'000	Provision for doubtful debts RM'000	Net amortisation of premium RM'000	Others RM'000	Total RM'000
2007					
At 1 July 2006	1,418	4,138	-	134	5,690
Recognised in the income statement	(1,142)	(3,787)	150	(134)	(4,913)
At 30 June 2007	<u>276</u>	<u>351</u>	<u>150</u>	<u>-</u>	<u>777</u>
2006					
At 1 April 2005	-	2,343	-	211	2,554
Recognised in the income statement	1,418	1,795	-	(77)	3,136
At 30 June 2006	<u>1,418</u>	<u>4,138</u>	<u>-</u>	<u>134</u>	<u>5,690</u>

11. TRADE AND OTHER RECEIVABLES**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	2007	2006
	RM'000	RM'000
Trade receivables		
Due premiums from agents, brokers and co-insurers balances	195,199	152,382
Due from reinsurers and cedants	70,488	40,977
	<u>265,687</u>	<u>193,359</u>
Provision for doubtful debts	(38,870)	(39,372)
	<u>226,817</u>	<u>153,987</u>
 Other receivables		
Other receivables, deposits and prepayments	28,322	29,610
Income due and accrued	8,287	8,228
Due from Life Insurance Fund (Note 18(b))	62,308	39,219
	<u>98,917</u>	<u>77,057</u>
Provision for doubtful debts	(1,200)	-
	<u>97,717</u>	<u>77,057</u>
	<u>324,534</u>	<u>231,044</u>

(b) LIFE INSURANCE FUND

	2007	2006
	RM'000	RM'000
Trade receivables		
Due premiums to agents, brokers and co-insurers balances	15,191	13,075
Amount due from reinsurers	3,312	3,262
	<u>18,503</u>	<u>16,337</u>
Provision for doubtful debts	(4,130)	(2,873)
	<u>14,373</u>	<u>13,464</u>
 Other receivables		
Other receivables, deposits and prepayments	69,273	12,173
Income due and accrued	46,525	41,479
	<u>115,798</u>	<u>53,652</u>
	<u>130,171</u>	<u>67,116</u>

12. CASH AND CASH EQUIVALENTS

	2007	2006
	RM'000	RM'000
Cash and bank balances		
- General Insurance and Shareholder's Funds	50,407	61,729
- Life Insurance Fund	26,675	48,018
- Life Insurance Investment-linked Fund (Note 26)	-	432
Cash and cash equivalents	<u>77,082</u>	<u>110,179</u>

13. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2007	2006	2007	2006
	'000	'000	RM'000	RM'000
Authorised:				
At 1 July 2006 and 30 June 2007/ At 1 April 2005 and 30 June 2006	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
At 1 July 2006 and 30 June 2007/ At 1 April 2005 and 30 June 2006	<u>152,151</u>	<u>152,151</u>	<u>152,151</u>	<u>152,151</u>

14. UNEARNED PREMIUM RESERVES**GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	Fire RM'000	Motor RM'000	Marine aviation & transit RM'000	Miscel- laneous RM'000	Total RM'000
1.7.06 to 30.6.07					
<u>Short term</u>					
At 1 July 2006	13,257	53,122	7,248	41,230	114,857
(Decrease)/increase in reserves	(494)	(2,328)	(1,353)	2,972	(1,203)
At 30 June 2007	12,763	50,794	5,895	44,202	113,654
<u>Long term</u>					
At 1 July 2006	51,139	21	25	1,157	52,342
Decrease in reserves	(5,463)	(21)	(25)	(427)	(5,936)
At 30 June 2007	45,676	-	-	730	46,406
Total	58,439	50,794	5,895	44,932	160,060
Total (decrease)/ increase in reserves	(5,957)	(2,349)	(1,378)	2,545	(7,139)

14. UNEARNED PREMIUM RESERVES (CONTD.)**GENERAL INSURANCE AND SHAREHOLDER'S FUNDS (CONTD.)**

	Fire RM'000	Motor RM'000	Marine aviation & transit RM'000	Miscel- laneous RM'000	Total RM'000
1.4.05 to 30.6.06					
<u>Short term</u>					
At 1 April 2005	16,176	50,955	5,737	25,150	98,018
(Decrease)/increase in reserves	(2,919)	2,167	1,511	16,080	16,839
At 30 June 2006	<u>13,257</u>	<u>53,122</u>	<u>7,248</u>	<u>41,230</u>	<u>114,857</u>
<u>Long term</u>					
At 1 April 2005	58,807	-	39	250	59,096
(Decrease)/increase in reserves	(7,668)	21	(14)	907	(6,754)
At 30 June 2006	<u>51,139</u>	<u>21</u>	<u>25</u>	<u>1,157</u>	<u>52,342</u>
Total	<u>64,396</u>	<u>53,143</u>	<u>7,273</u>	<u>42,387</u>	<u>167,199</u>
Total (decrease)/ increase in reserves	<u>(10,587)</u>	<u>2,188</u>	<u>1,497</u>	<u>16,987</u>	<u>10,085</u>

15. LIFE INSURANCE POLICYHOLDERS' FUND

	2007 RM'000	2006 RM'000
Actuarial liabilities	3,331,381	3,264,260
Unallocated surplus	742,248	556,351
Investment-linked policyholders' account (Note 26)	-	48,261
Life insurance policyholders' fund	<u>4,073,629</u>	<u>3,868,872</u>

15. LIFE INSURANCE POLICYHOLDERS' FUND (CONTD.)

	2007	2006
	RM'000	RM'000
<u>Actuarial liabilities</u>		
At 1 July 2006/1 April 2005	3,264,260	3,117,004
<u>Add:</u>		
Increase in policy reserves	10,134	89,013
Bonus allocated to participating policyholders, including interim bonus from normal surplus	63,463	64,899
<u>Less:</u>		
Interim bonus paid	(6,476)	(6,656)
	<u>67,121</u>	<u>147,256</u>
At 30 June	<u>3,331,381</u>	<u>3,264,260</u>

Unallocated surplus

At 1 July 2006/1 April 2005	556,351	467,384
<u>Add:</u>		
Surplus arising during the financial year/period	287,360	193,866
<u>Less:</u>		
Bonus allocated to policyholders, including interim bonus from normal surplus	(63,463)	(64,899)
Transfer to Income Statement (Page 21)	(38,000)	(40,000)
	<u>185,897</u>	<u>88,967</u>
At 30 June	<u>742,248</u>	<u>556,351</u>

16. LIFE INSURANCE FUND ASSET REVALUATION RESERVE

The Life Insurance Fund asset revaluation reserve relates to revaluation reserve of investment properties of a related company acquired at cost. These assets were previously revalued prior to the acquisition based on the open market value basis by a firm of professional valuers in the financial year ended 30 June 1997. The asset revaluation reserve was reversed upon disposal of the properties.

17. PROVISION FOR OUTSTANDING CLAIMS**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	2007	2006
	RM'000	RM'000
Provision for outstanding claims	500,150	586,785
Recoverable from reinsurers	(268,342)	(355,619)
Net outstanding claims	<u>231,808</u>	<u>231,166</u>

(b) LIFE INSURANCE FUND

	2007	2006
	RM'000	RM'000
Provision for outstanding claims	11,301	8,296
Recoverable from reinsurers	-	(9)
Net outstanding claims	<u>11,301</u>	<u>8,287</u>

18. TRADE AND OTHER PAYABLES**(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS**

	2007	2006
	RM'000	RM'000
Trade payables		
Due to agents, brokers, co-insurers and insureds	60,794	45,807
Due to reinsurers and cedants	208,944	161,133
	<u>269,738</u>	<u>206,940</u>
Other payables		
Other payables and accrued liabilities	<u>31,206</u>	<u>90,046</u>
	<u>300,944</u>	<u>296,986</u>

18. TRADE AND OTHER PAYABLES (CONTD.)**(b) LIFE INSURANCE FUND**

	2007	2006
	RM'000	RM'000
Trade payables		
Due to agents, brokers, co-insurers and insureds	3,687	3,168
Due to reinsurers	68	6,639
	<u>3,755</u>	<u>9,807</u>
Other payables		
Other payables and accrued liabilities	101,008	80,645
Due to General Insurance and Shareholder's Funds (Note 11(a))	62,308	39,219
	<u>163,316</u>	<u>119,864</u>
	<u>167,071</u>	<u>129,671</u>

19. OPERATING REVENUE

	Shareholder's Fund RM'000	General Insurance Fund RM'000	Life Insurance Fund RM'000	Investment- linked Fund RM'000	Total RM'000
1.07.06 to 30.6.07					
Gross premium	-	599,567	307,163	-	906,730
Investment income (Note 20)	14,522	34,579	204,426	-	253,527
	<u>14,522</u>	<u>634,146</u>	<u>511,589</u>	<u>-</u>	<u>1,160,257</u>
1.4.05 to 30.6.06					
Gross premium	-	717,534	498,017	-	1,215,551
Investment income (Note 20)	29,263	46,271	243,897	2,155	321,586
	<u>29,263</u>	<u>763,805</u>	<u>741,914</u>	<u>2,155</u>	<u>1,537,137</u>

20. INVESTMENT INCOME**(a) SHAREHOLDER'S FUND**

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Gross dividends from:		
Equity securities quoted in Malaysia	4,504	8,717
Unquoted shares	1,406	8,535
Unit trusts	28	-
Interest income from:		
Malaysian Government Securities	900	232
Unquoted debentures	3,158	5,269
Other loans	867	1,135
Fixed and call deposits	3,475	3,082
Net rental income	418	676
Net (amortisation)/accretion of premiums/discounts	(234)	1,617
	<u>14,522</u>	<u>29,263</u>

(b) GENERAL INSURANCE FUND

Gross dividends from:		
Equity securities quoted in Malaysia	4,116	8,571
Other quoted investments	-	59
Unquoted shares	-	5,000
Unit trusts	26	-
Interest income from:		
Malaysian Government Securities	2,051	4,678
Unquoted debentures	15,500	21,819
Other loans	1,192	515
Fixed and call deposits	11,558	5,842
Net accretion/(amortisation) of discounts/premiums	136	(213)
	<u>34,579</u>	<u>46,271</u>

20. INVESTMENT INCOME (CONTD.)**(c) LIFE INSURANCE FUND**

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Gross dividends from:		
Equity securities quoted in Malaysia	23,320	37,102
Unquoted shares	411	12,636
Unit trusts	763	305
Interest income:		
Malaysian Government Securities	18,745	23,749
Cagamas papers	7,285	5,180
Unquoted debentures	87,082	99,261
Mortgage loans	1,157	1,214
Policy loans	10,816	13,268
Other loans	2,836	1,293
Fixed and call deposits	31,425	33,532
Net rental income	11,018	11,349
Net accretion of discounts	9,575	5,077
	<u>204,433</u>	<u>243,966</u>
Less: Investment expenses	(7)	(69)
	<u>204,426</u>	<u>243,897</u>

(d) LIFE INSURANCE INVESTMENT-LINKED FUND

Gross dividends from:		
Equity securities quoted in Malaysia	-	749
Interest income from:		
Unquoted debentures	-	447
Fixed and call deposits	-	1,021
Net amortisation of premiums	-	(62)
	<u>-</u>	<u>2,155</u>

21. OTHER OPERATING INCOME/(EXPENSES) - NET**(a) SHAREHOLDER'S FUND**

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Net gain/(loss) on disposal of investments	19,923	(1,644)
Writeback of/(provision for) diminution in value of investments	4,581	(6,856)
Gain on disposal of property and equipment	-	7,611
Fair value adjustments on investment properties	100	-
Impairment loss on properties	(988)	-
Others	(744)	11
	<u>22,872</u>	<u>(878)</u>

(b) GENERAL INSURANCE FUND

Net gain on disposal of investments	7,924	5,659
(Provision for)/writeback of diminution in value of investments	(53)	4,549
Others	(821)	(117)
	<u>7,050</u>	<u>10,091</u>

(c) LIFE INSURANCE FUND

Net gain on disposal of investments	38,344	28,652
Writeback of/(provision for) diminution in value of investments	24,310	(22,530)
Impairment writeback/(loss) on investment properties	17,595	(8,331)
Fair value adjustment on investment properties	90,694	-
Gain on disposal of property and equipment	-	4
Realised loss on foreign exchange	-	(14)
Others	(3,184)	(79)
	<u>167,759</u>	<u>(2,298)</u>

22. MANAGEMENT EXPENSES**(a) SHAREHOLDER'S FUND**

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Staff salaries and bonus	372	326
Defined contribution plan	62	82
Others	10	71
Staff cost (excluding executive directors)	<u>444</u>	<u>479</u>
Non-executive directors:		
- Fees	157	509
- Other emoluments	32	203
Non-executive directors' remuneration	<u>189</u>	<u>712</u>
Depreciation of property, plant and equipment	871	1,928
Auditors' remuneration	10	11
Rental of premises	41	44
Electronic data processing expenses	-	2
Others	135	134
	<u>1,057</u>	<u>2,119</u>
	<u>1,690</u>	<u>3,310</u>

(b) GENERAL INSURANCE FUND

Staff salaries and bonus	28,266	34,980
Defined contribution plan	3,854	5,525
Others	6,547	2,169
Staff cost (excluding executive directors)	<u>38,667</u>	<u>42,674</u>
Executive director:		
- Salaries and bonus	-	649
- Defined contribution plan	-	95
- Other emoluments	-	42
Executive directors' remuneration	<u>-</u>	<u>786</u>

22. MANAGEMENT EXPENSES (CONTD.)**(b) GENERAL INSURANCE FUND (CONTD.)**

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Depreciation of property and equipment	2,644	11,056
Amortisation of intangible assets	264	-
Auditors' remuneration	186	218
Rental of premises	4,143	6,576
Advertising and promotion	6,212	5,919
Provision for/(writeback of) doubtful debts	222	(7,552)
Clearance old balance payable	-	(3,329)
Accrual for Insurance Guarantee Scheme Fund Levy	676	404
Electronic data processing expenses	6,852	6,770
Repairs and maintenance	582	996
Others	13,123	13,430
	<u>34,904</u>	<u>34,488</u>
	<u>73,571</u>	<u>77,948</u>

(c) LIFE INSURANCE FUND

Staff salaries and bonus	20,869	21,131
Defined contribution plan	2,948	3,475
Others	144	1,267
Staff cost (excluding executive director)	<u>23,961</u>	<u>25,873</u>
Executive director:		
- Salaries and bonus	-	320
- Defined contribution plan	-	47
- Other emoluments	-	20
Executive directors' remuneration	<u>-</u>	<u>387</u>
Depreciation of property, plant and equipment	2,474	3,026
Amortisation of intangible assets	109	-
Auditors' remuneration	142	165
Rental of premises	2,474	3,943
Electronic data processing expenses	5,000	4,261
Advertising and promotion	2,181	1,549
Provision for doubtful debts	1,702	1,602
Others	5,555	6,178
	<u>19,637</u>	<u>20,724</u>
	<u>43,598</u>	<u>46,984</u>

22. MANAGEMENT EXPENSES (CONTD.)

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year/period amounted to RM469,697 (2006: RM1,225,386). The estimated monetary value of benefits-in-kind provided to the Chief Executive Officer during the financial year/period amounted to RMNil (2006: RM47,060).

The estimated monetary value of benefits-in-kind provided to Directors during the financial year/period by way of usage of the Company's assets amounted to RMNil (2006: RM57,218).

23. TAXATION

The income tax for shareholder's and general funds are generally calculated based on the tax rate of 27% (2006: 28%) of the estimated assessable profit for the financial year. The income tax for the life fund is calculated based on statutory rate of 8% (2006: 8%) of the estimated assessable income for the financial year.

It was announced in the 2007 Budget that the income tax rate for the year of assessment 2008 (for financial year ending 2008) will be reduced to 26%. No changes have been proposed to the income tax rate for the life fund, which is currently at 8%.

However, the proposal for a reduction in the income tax rate to 26% has yet to be gazetted to date and hence, not legally enforceable. In view of this, the Company has computed the deferred tax for shareholder's and general funds based on the existing income tax rate of 27%.

(a) GENERAL INSURANCE AND SHAREHOLDER'S FUNDS

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Income tax:		
Malaysian income tax	38,911	35,888
Deferred tax: (Note 10)		
Relating to origination and reversal of temporary differences	(5,240)	341
	<u>33,671</u>	<u>36,229</u>
(Over)/under provision of income tax in prior financial years	(26,273)	22,193
	<u>7,398</u>	<u>58,422</u>

23. TAXATION (CONTD.)

A reconciliation of income tax expenses applicable to profit/surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Profit before tax	<u>111,359</u>	<u>128,120</u>
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	30,067	35,874
Business outside Malaysia taxed at 5% (2006: 5%)	(1,408)	(1,548)
Income not subject to tax	(46)	(1,270)
Expenses not deductible for tax purposes	5,058	3,173
(Over)/under provision of income tax in prior financial years	<u>(26,273)</u>	<u>22,193</u>
Tax expense for the financial year	<u>7,398</u>	<u>58,422</u>

(b) (i) LIFE INSURANCE FUND

Income tax:		
Malaysian income tax	21,343	21,396
Deferred tax: (Note 10)		
Relating to origination and reversal of temporary differences	<u>11,599</u>	<u>(2,796)</u>
	32,942	18,600
Over provision of income tax in prior financial years	<u>(4,670)</u>	<u>-</u>
	<u>28,272</u>	<u>18,600</u>

(b) (ii) INVESTMENT-LINKED FUND

Income tax:		
Malaysian income tax	-	-
Deferred tax: (Note 10)		
Relating to origination and reversal of temporary differences	<u>-</u>	<u>277</u>
	<u>-</u>	<u>277</u>
Surplus before tax:		
- Life business	271,029	294,720
- Investment-linked fund (Note 26)	-	1,463
	<u>271,029</u>	<u>296,183</u>

23. TAXATION (CONTD.)**(b) (ii) INVESTMENT-LINKED FUND (CONTD.)**

	1.7.06	1.4.05
	to	to
	30.6.07	30.6.06
	RM'000	RM'000
Taxation at Malaysian tax rate of 8% (2006: 8%)	21,682	23,695
Income not subject to tax	(22,159)	(39,427)
Expenses not deductible for tax purposes	33,418	34,609
Over provision of income tax in prior financial years	(4,670)	-
	<hr/>	<hr/>
Tax expense for the financial year		
- Life business	28,272	18,600
- Investment-linked fund (Note 26)	-	277
	<hr/>	<hr/>
	28,272	18,877

As at 30 June 2007, the Company has tax exempt profits available for distribution of approximately RM142,000,000 (2006: RM130,000,000).

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and exempt income to frank the payment of dividends out of its entire retained earnings as at 30 June 2007.

24. EARNING PER SHARE

The basic earnings per share are calculated as follows:

Net profit for the		Number of shares		Earnings per share (sen)	
financial year/period					
2007	2006	2007	2006	2007	2006
RM'000	RM'000	'000	'000	sen	sen
103,961	69,698	152,151	152,151	68	46

There is no dilution of earnings per share as there was no dilutive potential ordinary shares as at 30 June 2007.

25. NET CLAIMS INCURRED**GENERAL INSURANCE FUND**

	Fire RM'000	Motor RM'000	Marine, aviation and transit RM'000	Miscel- laneous RM'000	Total RM'000
1.7.06 to 30.6.07					
Gross claims paid less salvage	25,039	84,986	76,711	51,306	238,042
Reinsurance recoveries	(13,970)	(4,595)	(67,747)	(31,288)	(117,600)
Net claims paid	11,069	80,391	8,964	20,018	120,442
Net outstanding claims:					
At end of financial year	17,559	119,615	24,605	70,029	231,808
At beginning of financial year	(18,669)	(122,809)	(30,169)	(59,519)	(231,166)
Net claims incurred	9,959	77,197	3,400	30,528	121,084
1.4.05 to 30.6.06					
Gross claims paid less salvage	23,754	117,129	146,453	166,107	453,443
Reinsurance recoveries	(12,374)	(7,655)	(137,444)	(128,224)	(285,697)
Net claims paid	11,380	109,474	9,009	37,883	167,746
Net outstanding claims:					
At end of financial period	18,669	122,809	30,169	59,519	231,166
At beginning of financial period	(17,545)	(136,150)	(36,141)	(64,228)	(254,064)
Net claims incurred	12,504	96,133	3,037	33,174	144,848

26. INVESTMENT-LINKED BUSINESS**BALANCE SHEET**

	2007	2006
	RM'000	RM'000
<u>Assets</u>		
Investments (Note 8(b)(ii))	-	48,759
Sundry receivables	-	128
Cash and bank balance (Note 12)	-	432
Tax recoverable	-	519
Deferred tax assets	-	-
	<u>-</u>	<u>49,658</u>
<u>Liabilities</u>		
Tax payable	-	1,397
Net asset value of funds	<u>-</u>	<u>48,261</u>

Represented by:

Investment-linked policyholders' account:

At beginning of financial year/period	48,261	47,178
Net cancellation of units	(48,261)	(103)
Net surplus of the financial year/period after tax	<u>-</u>	<u>1,186</u>
	<u>-</u>	<u>48,261</u>

STATEMENT OF INCOME AND EXPENDITURE

	2007	2006
	RM'000	RM'000
Investment income (Note 20(d))	-	2,155
Other income	-	6,261
Other outgo	-	(6,953)
Surplus before tax	<u>-</u>	<u>1,463</u>
Income tax expense		
- Current tax	-	-
- Deferred tax	-	(277)
Net surplus of the financial year/period after tax	<u>-</u>	<u>1,186</u>

27. SEGMENT INFORMATION ON CASH FLOWS

	Shareholders' Fund RM'000	General Insurance Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2007				
Cash flows from:				
Operating activities	2,071	(13,492)	(15,797)	(27,218)
Investing activities	-	100	(5,979)	(5,879)
Net increase in cash and cash equivalents	2,071	(13,392)	(21,776)	(33,097)
Cash and cash equivalents:				
At beginning of financial year	24,792	36,937	48,450	110,179
At end of financial year	26,863	23,545	26,674	77,082
2006				
Cash flows from:				
Operating activities	101,450	11,939	(1,003)	112,386
Investing activities	(55,770)	(1,109)	10,820	(46,059)
Financing activities	(23,005)	-	-	(23,005)
Net increase in cash and cash equivalents	22,675	10,830	9,817	43,322
Cash and cash equivalents:				
At beginning of financial period	2,117	26,107	38,633	66,857
At end of financial period	24,792	36,937	48,450	110,179

28. CAPITAL COMMITMENTS

	General Insurance and Shareholder's Funds		Life Insurance Fund	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Authorised and contracted for:				
- Property, plant and equipment	-	2,272	562	194
- Broadband leased-line connectivity	-	695	-	-
- Branding costs	4,000	-	-	-
- Life Core system	-	-	29,288	-
Authorised but not contracted for:				
- Branding costs	12,900	-	-	-
- Property, plant and equipment	-	2,217	350	-
- Life Core system	-	-	26,712	-
	<u>16,900</u>	<u>5,184</u>	<u>56,912</u>	<u>194</u>

29. SIGNIFICANT RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company other than as disclosed in Note 6, are as follow:

Related parties	Country of incorporation	Relationship
Mayban Fortis Holdings Berhad	Malaysia	Holding company
Malayan Banking Berhad	Malaysia	Ultimate holding company

In the normal course of business, the Company undertook at agreed terms and prices, various transactions with its ultimate holding company, subsidiaries and other companies deemed related parties by virtue of being subsidiaries and associated companies of Malayan Banking Berhad ("MBB").

29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTD.)

The significant related party transactions during the financial period between the Company and its related parties are set out below:

	2007	2006
	RM'000	RM'000
Reinsurance premium received from a subsidiary company	(400)	(8)
Rental received from:		
- Related company	(43)	(108)
- Subsidiary company	(2,189)	(4,083)
Rental paid to related companies	1,844	-
Claims paid to a subsidiary company	99	165
Shared service cost paid to holding company	1,127	311
Administrative fee paid to subsidiary companies	224	200
Management fee received from a subsidiary company	-	(1,387)
Interest income received from related party	(8,352)	(4,137)
Interest income received from ultimate holding company	(2,302)	-
Proceeds received from ultimate holding company for redemption of bonds	-	40,000
	<u> </u>	<u> </u>

The directors are of the opinion that the related party transactions described above were carried out on terms and conditions obtainable in transactions with unrelated parties.

30. FINANCIAL INSTRUMENTS

The Company management policies seek to ensure that adequate financial resources are available for the development of the Company businesses whilst managing its various risks. The overall objective is to safeguard the interests of all its stakeholders. Risk management is centralised at MFHB. Since the Company is itself a risk-taking business unit, risk itself is present at the Company level. Therefore the Company is responsible for the day-to-day management of risks inherent in its business activities as the first line of defence. The Risk Management Division of MFHB acts as a risk control and coordinating unit whose responsibility includes the setting up of a risk management framework, the formulation and implementation of risk management guidelines and the development of tools and methodologies for the identification, measurement, monitoring, control and pricing of risks. As such, it becomes the second line of defence. The internal auditors of Maybank Group, acting as the third line of defence, provide independent assurance of the effectiveness of the risk management approach. These three-pronged strategies are in line with that of Maybank Group's risk management approach.

30. FINANCIAL INSTRUMENTS (CONTD.)

A. Type of Risk

Risks can arise in all operational areas, functions, processes, and also from external events. Assessing the risk situation of Mayban Fortis Group therefore requires a holistic approach. The scope of risk management approach at the Mayban Fortis Group are in accordance to the three risk management pillars. The pillars are the Financial Risk, Insurance Risk and Operational Risk.

(i) Insurance Risk

This relates to the risks inherent in the business activities of life and non-life businesses. Such risks include the premium/benefits risk, premium/claims risk, claims/actuarial reserve risk and reinsurance risk. Premium/benefits risk is more common in the life and health insurance, i.e. the risk of having to pay, from a premium that may be fixed for many years at a constant level, benefits that can be affected by intervening trends when they become due. In the case of non-life, it is the premium and claims risk, i.e. the risk of having to pay, from premiums fixed in advance, claims and benefits whose scope is uncertain at the time the premium is fixed.

Special attention is also given to the adequacy of the actuarial reserves or the claims reserve risk. The appointed actuaries will assess the reserving methodology on a regular basis in accordance with the BNM's guidelines. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers, retrocessionaires, cedants and brokers.

(ii) Financial Risk

Financial risks comprise market risks and credit risks. Market risk involves potential losses in the value of invested capital as a result of changes in market prices, i.e. due to fluctuations in interest rates/rates of return, share prices or exchange rates and perhaps to a certain extent property prices. Market risk is more prevalent in the life business and family takaful business. Credit risk arises when a borrower or counterparty is no longer able to pay their debt. Such risks from defaults on receivables may arise from profiles of liabilities supported by mismatch of assets. Attention is also given to the counterparty risk on the bond portfolio.

(iii) Operational Risk

Operational risk is defined as the risk of direct loss resulting from inadequate or failed internal processes, people and systems or from external events. The methodology used to assess, mitigate and control the risks identified are in accordance to the Maybank Group operational risk framework.

30. FINANCIAL INSTRUMENTS (CONTD.)

B. Monitoring and controlling risks

Having classified all the different types of risks, it is important that these risks are monitored and controlled regularly. The development of consistent methodology for use throughout the entire MFHB Group has become the focal point of interests to the management and Boards of MFHB Group of companies. In essence, these could be described as follows:

(i) Insurance Risk

Underwriting guidelines and limits have been well established to clearly regulate responsibility and accountability for the whole process of conducting insurance and reinsurance contracts. There it spells out who may accept what risks and up to what amounts. They are regularly monitored for compliance and updated to reflect current requirements. To further control the underwriting risks, the actuarial department will regularly assess the adequacy of the insurance charges and technical provisions.

The non-life business uses reinsurance as a form of risk transfer. The risk of defaults by reinsurers operators were further reduced by selecting only those reinsurers with reputable securities or those that have been awarded with at least an "A" rating by internationally recognised rating agencies. Additionally, provisions for known and unknown liabilities arising from our commitments are calculated for life and non-life using prudent actuarial methods.

(ii) Financial Risk

In order to manage financial risks, the Asset-Liability Committee ("ALCO") has been established. The ALCO is responsible for advising the Investment Committee ("IC"), Risk Management Committee ("RMC") and the Board of Directors (Board) on financial risk management. It is responsible for preparing global investment management guidelines on counterparty and concentration risks in the fixed income investments, equity and property investments taking into account BNM's regulations and market trends. Moreover, Asset-Liability Management ("ALM") studies, based on stress tests of the impact of alternative investment strategies on solvency and revenue, are performed for every investment portfolio separately, taking into account the characteristics of the liabilities and translated into a specific Investment Management Mandate. The global investment management guidelines and the portfolio-specific mandates are submitted to the IC, RMC and the Board for review and approvals. ALCO will then monitor the compliance to the approved mandates.

In managing credit risk, credit limits are imposed where ALCO sets forth the maximum credit exposures the MFHB Group is willing to assume over specified periods. They relate to products, conditions of the exposure and other factors.

30. FINANCIAL INSTRUMENTS (CONTD.)**B. Monitoring and controlling risks****(iii) Operational risk**

An on going process of implementing a comprehensive framework for monitoring and controlling operational risks has been put in place. In the process, operational loss data is being collected using an approach similar to the requirements of Bank for International Settlement Accord II ("Basel II") and in line with Maybank Group operational risk framework. Key risk indicators are also compiled for deliberation at the RMC meeting.

In addition, the risk control self assessment scorecards have been developed to ensure risk-taking units have identified and manage its operational risks. A risk communication programme is being carried out with the objective to create risk awareness among all staff of the MFHB Group of possible risks and to inculcate an appropriate risk culture to avoid the common fallacy to equate risk-awareness with being risk-averse.

C. Estimated fair values

The carrying values of financial assets and liabilities of the Company as at 30 June 2007 approximate their fair value, except for the following:

	General and		Life Fund	
	Shareholder's Fund			
	Carrying	Fair	Carrying	Fair
	value	value	value	value
	RM'000	RM'000	RM'000	RM'000
2007				
Investments				
- Malaysian Government Securities	31,774	32,267	295,066	324,278
- Malaysian Government Guaranteed Bonds	67,390	67,811	-	-
- Malaysian Government Investment Issue	29,334	30,272	29,338	31,740
- Cagamas papers	-	-	158,125	167,268
- Corporate debt securities	402,000	410,675	1,730,286	1,830,371
- Quoted equity securities of corporations	117,349	188,103	313,453	438,133
- Unit trusts	7,676	8,103	24,655	24,655
	655,523	737,231	2,550,923	2,816,445

30. FINANCIAL INSTRUMENTS (CONTD.)**C. Estimated fair values (Contd.)**

	General and Shareholder's Fund		Life Fund	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
2006				
Investments				
- Malaysian Government Securities	41,684	41,077	305,752	310,654
- Malaysian Government Investment Issue	24,031	23,671	29,266	28,930
- Cagamas papers	-	-	142,801	139,550
- Corporate debt securities	423,159	393,764	1,517,261	1,531,810
- Quoted equity securities of corporations	191,575	204,609	449,428	465,794
- Unit trusts	861	861	13,231	13,231
	<u>681,310</u>	<u>663,982</u>	<u>2,457,739</u>	<u>2,489,969</u>

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and Cash Equivalents and Other Receivables/Payables

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

In the opinion of the directors, no disclosure of fair value is made for inter-company balances as it is not practical to determine their fair values with sufficient reliability given that these balances have no fixed terms of repayment.

(ii) Investments

The fair values of quoted investments are determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

The fair values of Cagamas bonds, Government securities and bonds, bonds/loan stocks and NCD are indicative values obtained from the secondary market.

The fair values of quoted units in property and unit trust funds are determined by reference to market quotations by the manager of the funds.

31. SUBSEQUENT EVENT

The Company will transfer its entire shareholdings in its wholly owned subsidiaries, Takaful National Sdn. Berhad ("TNSB") and MNI Offshore Insurance Ltd ("MNIOIL") to the holding company Mayban Fortis Holdings Berhad ("MFHB") via a dividend-in-specie.

The Company will declare a dividend amounting to RM107,882,500, which is equivalent to its investment value in TNSB and MNIOIL. TNSB and MNIOIL will then be wholly owned subsidiaries of MFHB.

32. COMPARATIVES

The financial year end of the Company was changed from 31 March to 30 June in the previous financial period so as to be coterminous with the financial year end of its ultimate holding company. The comparative figures are for the period from 1 April 2005 to 30 June 2006. Accordingly, comparative amounts for the income statement, statement of changes in equity, cash flow statement and the related notes are not comparable.

33. CURRENCY

All amount are stated in Ringgit Malaysia, unless otherwise stated.