

**AUDITED FINANCIAL STATEMENTS OF ORIENTAL FOR THE FINANCIAL YEAR ENDED 31  
DECEMBER 2006**

**ORIENTAL CAPITAL ASSURANCE BERHAD (30686-K)  
(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements  
31 December 2006**

30686 K

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
**(Incorporated in Malaysia)**

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**ORIENTAL CAPITAL ASSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**DIRECTORS' REPORT**

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

**PRINCIPAL ACTIVITIES**

The Company is engaged principally in the underwriting of all classes of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

Its subsidiary ceased underwriting of all classes of general insurance business in a previous financial year and is currently dormant.

**RESULTS**

	<b>Group and Company RM'000</b>
Net loss for the year	<u>(9,327)</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 Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

**DIVIDENDS**

The amount of dividends declared and paid by the Company since 31 December 2005 was as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2005 as disclosed in the directors' report of that year:	
Final dividend of 2.5% less 28% taxation, paid on 27 July 2006	<u>1,800</u>

In the annual report of the previous year, it was disclosed that a final dividend in respect of the financial year ended 31 December 2005 of 5% on 100,013,218 ordinary shares less 28% taxation amounting to a total dividend of RM3,600,000 (5 sen gross per share) would be proposed for shareholders' approval. However, the said final dividend declared and paid amounted to a total dividend of RM1,800,238 (2.5 sen gross per share).

## **DIVIDENDS (CONTD.)**

The directors do not propose any dividends in respect of the current financial year.

## **DIRECTORS**

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Datuk Dr. K. Ampikaipakan  
Albert Saychuan Cheok  
Vell Paari a/l Samy Vellu  
Mohd Yusof bin Idris  
Kirupalani a/l Chelliah  
Yoshiyuki Ishida  
Dato' Vijaya Kumar s/o T. Chornalingam (Appointed on 5.6.2006)  
Tan Sri Dato' G. Pasamanickam (Retired on 5.6.2006)

In accordance with Article 96 of the Company's Articles of Association, Albert Saychuan Cheok and Mohd Yusof bin Idris will retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Vijaya Kumar s/o T. Chornalingam will retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

## **CORPORATE GOVERNANCE**

### **(a) Responsibility of the Board of Directors**

The Board of Directors ('the Board') is charged with the responsibility of providing direction on corporate objectives and business strategies, proper stewardship over company resources, achievement of corporate objectives, and good corporate citizenship. The Board ensures that there is a sound decision making process and business operating environment, with proper risk management and internal control frameworks.

The Board ensures that it complies with the Insurance Act and Regulations, 1996 ('the Act'), various guidelines issued by Bank Negara Malaysia ('BNM'), and other statutory and regulatory requirements. The Board had set up Management Committees to oversee and report on functional performances as part of its stewardship and oversight functions.

### **(b) Composition and meetings**

Members of the Board comprise one (1) Independent Non-Executive Chairman, two (2) Independent Non-Executive Directors, two (2) Non-Independent Non-Executive Directors and two (2) Executive Directors. All appointments are in accordance with the Act and BNM guidelines.

**CORPORATE GOVERNANCE (CONTD.)****(b) Composition and meetings (Contd.)**

The directors bring with them various skills, experience and knowledge in insurance business to undertake the management of the Company.

During the financial year the members of the Board met eight (8) times, with attendance recorded as follows:

<b>Name</b>	<b>Number of Board meetings</b>	
	<b>Attended</b>	<b>%</b>
Tan Sri Datuk Dr. K. Ampikaipakan	8/8	100%
Albert Saychuan Cheok	8/8	100%
Vell Paari a/l Samy Vellu	8/8	100%
Mohd Yusof bin Idris	7/8	88%
Kirupalani a/l Chelliah	8/8	100%
Yoshiyuki Ishida	7/8	88%
Dato' Vijaya Kumar s/o T. Chornalingam (Appointed on 5.6.2006)	6/6	100%
Tan Sri Dato' G. Pasamanickam (Retired on 5.6.2006)	0/1	0%

**(c) Management Committees**

The Board had set up and delegated certain responsibilities to management committees to facilitate the execution of its duties and responsibilities. These committees have their respective terms of reference. The Chairman of the respective committees report regularly to the Board.

**(i) Risk Management Committee (RMC)**

The RMC comprises two (2) Independent Non-Executive Directors (INED) and one (1) Non-Independent Non-Executive Director (NINED), as follows:

Kirupalani a/l Chelliah	(Chairman/INED)
Albert Saychuan Cheok	(INED)
Vell Paari a/l Samy Vellu	(NINED)

The RMC oversees the risk management activities - ensures that an appropriate and effective risk framework is in place, deliberates risk management strategies and tolerance limits for the various business activities, and recommends policies to be adopted to contain company wide risks.

The RMC met four (4) times during the financial year.

**(ii) Audit Committee (AC)**

The AC comprises three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director as follows:

**CORPORATE GOVERNANCE (CONTD.)****(c) Management Committees (Contd.)****(ii) Audit Committee (AC) (Contd.)**

Tan Sri Datuk Dr. K. Ampikaipakan	(Chairman/INED)
Albert Saychuan Cheok	(INED)
Kirupalani a/l Chelliah	(INED)
Dato' Vijaya Kumar s/o T. Chormalingam	(NINED)
(Appointed on 5.6.2006)	

Terms of reference, in main, include ensuring an independent, effective and appropriately resourced internal audit department is in place to provide reassurance that the Company's internal control and risk frameworks are preserved, assets are safeguarded, and obligations are met. In addition, the Committee reviews and recommends the adoption of the annual financial statements, and reviews the disclosure of related party transactions. The AC also recommends the appointment/re-appointment of external auditors.

The AC met six (6) times during the financial year.

**(iii) Nomination Committee (NC)**

Members of the Committee are as follows:

Tan Sri Datuk Dr. K. Ampikaipakan	(Chairman/INED)
Kirupalani a/l Chelliah	(INED)
Albert Saychuan Cheok	(INED)
Vell Paari a/l Samy Vellu	(NINED)
Mohd Yusof bin Idris	(Executive Director)

The NC is empowered to evaluate the performance of individual directors and recommend the appointment of chairmen and members of the management committees. The NC proposes first to the Board new directors followed by submission to BNM for appointment and existing directors for re-appointment or re-election. Suitability, competencies and contributions of directors are reviewed prior to any recommendation. The NC also performs annual review to assess if the composition and size of the Board and skills of individual directors taken together will facilitate effective discharge of Board duties.

The NC also evaluates and recommends appointment of the Chief Executive Officer and key senior officers of the Company.

The NC met two (2) times during the financial year.

**(iv) Remuneration Committee (RC)**

The RC consists of the following directors:

Albert Saychuan Cheok	(Chairman/INED)
Kirupalani a/l Chelliah	(INED)
Vell Paari a/l Samy Vellu	(NINED)

## **CORPORATE GOVERNANCE (CONTD.)**

### **(c) Management Committees (Contd.)**

#### **(iv) Remuneration Committee (RC) (Contd.)**

The RC is responsible for reviewing and recommending remuneration packages for the Chief Executive officer and changes to staff remuneration policies. The RC is also charged with the responsibility of ensuring that the remuneration packages are commensurate with industry practices, and address the need for retention and motivation of staff.

The RC met once during the financial year.

#### **(v) Investment Committee (IC)**

The IC members comprise of two (2) Independent Non-Executive Directors, one (1) Non Independent Non-Executive Director and one (1) Executive Director as follows:

Albert Saychuan Cheok	(Chairman/INED)
Kirupalani A/L Chelliah	(INED)
Vell Paari A/L Sammy Vellu	(NINED)
Mohd Yusof bin Idris	(Executive Director)

The terms of reference of this Committee is to monitor and manage the investment portfolio, review and recommend investment policies, and review and evaluate the performance of both the internal and external fund management function in view of optimisation of investment returns. This Committee is guided by the Investment Guidelines, business strategies and market conditions and outlook.

The Committee is responsible for the appointment and retention of fund managers as well as evaluation of their performance.

The IC met nine (9) times during the financial year.

### **(d) Management Accountability**

The Company has an organisational structure with clear documentation of delegation of authority, roles, accountabilities and responsibilities.

Neither directors nor senior management had been involved in any activity resulting in a conflict of interest, per Sections 54 and 55 of the Insurance Act, 1996.

### **(e) Corporate Independence**

All significant related party transactions have been disclosed in Note 25 to the financial statements.

## **CORPORATE GOVERNANCE (CONTD.)**

### **(f) Internal Controls and Operational Risk Management**

The Board ensures that the Risk Management and Internal Control Frameworks, processes, policies and procedures are effective, and capable of identifying material risks, and provide reasonable assurance that the business is operating effectively and efficiently.

Functional reviews, physical controls, exposure limits, approvals and authorisations, and verifications and reconciliations are undertaken to reassure controls and risks are balanced and contained respectively.

Check and balances in duties and functions are also preserved, avoiding at all times conflict of interest.

### **(g) Public Accountability**

The Company, as a custodian of public funds, conducts public dealings fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Financial Mediation Bureau and BNM's Consumer Services Bureau. The bureaus were set up with the view to provide alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

### **(h) Financial Reporting**

The Board is responsible for ensuring that the accounting records are properly kept, annual financial statements are prepared in accordance to applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, the provisions of the Companies Act, 1965 and the Insurance Act, 1996, and regulations and represent a true and fair view.

## **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.

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 shown in Note 20 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.



**DIRECTORS' INTERESTS**

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

Holding company	Number of Ordinary Shares of RM1 Each			31 December 2006
	1 January 2006	Bought	Sold	
<b>- Maika Holdings Berhad</b>				
Tan Sri Datuk Dr. K. Ampikaipakan	38,125	-	-	38,125
Dato' Vijaya Kumar s/o T. Chornalingam (Appointed on 5.6.2006)	1,250	-	-	1,250
Albert Saychuan Cheok	1,250	-	-	1,250
Vell Paari a/l Samy Vellu	240,125	86,375	-	326,500

Other than as stated 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 Group and 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 allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance 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:
- (i) require any amount to be written off as bad debts or render the allowance for doubtful debts of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and 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 Group and 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.

**OTHER STATUTORY INFORMATION (CONTD.)**

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations when they fall due; and
- (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 Group and of the Company for the financial year in which this report is made.

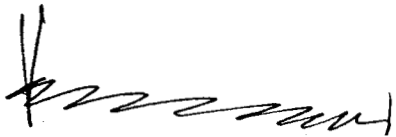
For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group and of the Company.

(g) Before the balance sheets and income statements 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.

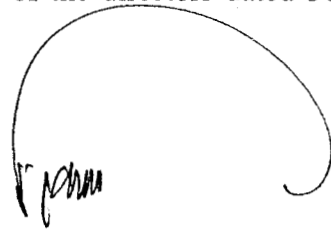
**AUDITORS**

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 30 March 2007.



Vijaya Kumar s/o T. Chornalingam



Vell Paari a/l Samy Vellu

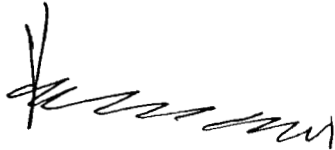
Kuala Lumpur, Malaysia  
30 March 2007

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
**(Incorporated in Malaysia)**


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

We, Vijaya Kumar s/o T. Chornalingam and Vell Paari a/l Samy Vellu, being two of the directors of Oriental Capital Assurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 13 to 58 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and the Company as at 31 December 2006 and of the results and the cash flows of the Group and the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors  
dated 30 March 2007



Vijaya Kumar s/o  
T. Chornalingam



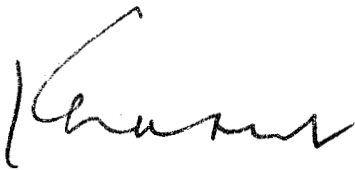
Vell Paari a/l  
Samy Vellu

Kuala Lumpur, Malaysia  
30 March 2007

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

I, Mohd Yusof bin Idris, being the director primarily responsible for the financial management of Oriental Capital Assurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 58 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 Oaths Act of Malaysia.

Subscribed and solemnly declared by  
the above named Mohd Yusof bin Idris



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**Mohd Yusof bin Idris**

On the 30th Day of March 2007

Signed on the presence of:

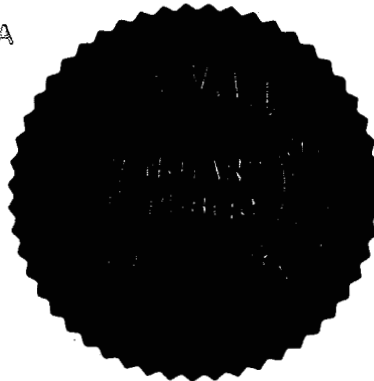
Witness:



Address:

**GARRY EVAN SAME  
NOTARY PUBLIC  
PERTH AUSTRALIA**

Occupation:



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**REPORT OF THE AUDITORS TO THE MEMBERS OF  
ORIENTAL CAPITAL ASSURANCE BERHAD  
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 13 to 58. 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:

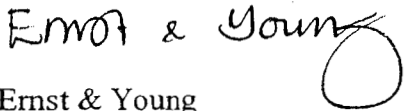
- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and 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 and its subsidiary have been properly kept in accordance with the provisions of the Act.

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**REPORT OF THE AUDITORS TO THE MEMBERS OF  
ORIENTAL CAPITAL ASSURANCE BERHAD (CONTD.)  
(Incorporated in Malaysia)**

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

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



Ernst & Young  
AF: 0039  
Chartered Accountants



Gloria Goh Ewe Gim  
No. 1685/04/07(J)  
Partner

Kuala Lumpur, Malaysia  
30 March 2007

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**BALANCE SHEETS AS AT 31 DECEMBER 2006**

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>ASSETS</b>					
Property and equipment	3	14,658	15,364	14,658	15,364
Deferred tax assets	4	3,750	2,199	3,750	2,199
Investments	5	307,157	300,814	307,157	300,814
Investment in subsidiary	6	-	-	50,000	50,000
Intangible assets	7	25,423	25,549	25,423	25,549
Loans	8	1,620	1,986	1,620	1,986
Receivables	9	51,185	58,445	51,185	58,445
Cash and bank balances		3,717	1,732	3,717	1,732
<b>TOTAL ASSETS</b>		<b>407,510</b>	<b>406,089</b>	<b>457,510</b>	<b>456,089</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	10	100,013	100,013	100,013	100,013
Share premium account		3,335	3,335	3,335	3,335
Retained profits		24,762	35,889	24,762	35,889
<b>Total equity</b>		<b>128,110</b>	<b>139,237</b>	<b>128,110</b>	<b>139,237</b>
<b>Liabilities</b>					
Amount due to subsidiar	11	-	-	50,000	50,000
Provision for outstanding					
claims	12	168,759	158,397	168,759	158,397
Payables	13	55,630	51,441	55,630	51,441
Retirement benefits	14	2,627	2,651	2,627	2,651
Unearned premium					
reserves	15	52,384	54,363	52,384	54,363
<b>Total liabilities</b>		<b>279,400</b>	<b>266,852</b>	<b>329,400</b>	<b>316,852</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>407,510</b>	<b>406,089</b>	<b>457,510</b>	<b>456,089</b>

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

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	Share capital RM'000	Non- distributable Share premium RM'000	Distributable Retained profits RM'000	Total RM'000
<b>Group and Company</b>					
<b>At 1 January 2005</b>		100,013	3,335	34,593	137,941
Net profit for the year representing total recognised income for the year		-	-	8,496	8,496
Dividends	23				
2004 Final				(3,600)	(3,600)
2005 Interim		-	-	(3,600)	(3,600)
<b>At 31 December 2005</b>		100,013	3,335	35,889	139,237
Net loss for the year representing total recognised income for the year		-	-	(9,327)	(9,327)
Dividends	23				
2005 Final		-	-	(1,800)	(1,800)
<b>At 31 December 2006</b>		100,013	3,335	24,762	128,110

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



**ORIENTAL CAPITAL ASSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	Group and Company	
		2006 RM'000	2005 RM'000
Operating revenue	16	<u>362,128</u>	<u>335,489</u>
<b>Shareholders' fund:</b>			
Investment income	17	86	77
Other operating expenses	18	-	(1,655)
Transfers from general insurance revenue account		(10,391)	21,018
(Loss)/profit before taxation		<u>(10,305)</u>	<u>19,440</u>
Taxation	21	978	(10,944)
Net (loss)/profit for the year		<u>(9,327)</u>	<u>8,496</u>
(Loss)/earnings per share (sen)			
Basic	22	<u>(9.3)</u>	<u>8.5</u>
Dividend per share - net (sen)	23	<u>1.8</u>	<u>7.2</u>

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

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
(Incorporated in Malaysia)

**GENERAL INSURANCE REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

Group and Company	Note	Fire		Motor		Marine, Aviation, Offshore and Transit		Miscellaneous		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	16										
Gross premiums		45,690	41,758	83,990	91,805	182,161	154,980	36,488	33,600	348,329	322,143
Reinsurance		(39,757)	(34,916)	(8,835)	(10,742)	(162,088)	(136,872)	(23,499)	(20,405)	(234,179)	(202,935)
Net premium		5,933	6,842	75,155	81,063	20,073	18,108	12,989	13,195	114,150	119,208
(Increase)/decrease in unearned premium reserves	15	(86)	(2,047)	3,276	(3,113)	(1,306)	(1,926)	95	(176)	1,979	(7,262)
Earned premium		5,847	4,795	78,431	77,950	18,767	16,182	13,084	13,019	116,129	111,946
Net claims incurred	19	(4,436)	(2,147)	(61,713)	(50,925)	(26,805)	(15,318)	(6,039)	(9,749)	(98,993)	(78,139)
Net commission earned/(incurred)		1,656	1,645	(8,202)	(8,498)	1,028	707	(1,257)	(1,463)	(6,775)	(7,609)
Underwriting surplus/(deficit) before management expenses		3,067	4,293	8,516	18,527	(7,010)	1,571	5,788	1,807	10,361	26,198
Management expenses	20									(38,937)	(20,694)
Underwriting (deficit)/surplus										(28,576)	5,504
Investment income	17									13,713	13,269
Other operating income (net)	18									4,472	2,245
Transfer to income statement										(10,391)	21,018

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

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
(Incorporated in Malaysia)

**CASH FLOW STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**Group and Company**  
**2006**                      **2005**  
**RM'000**                      **RM'000**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net (loss)/profit before taxation	(10,305)	19,440
Adjustments for:		
Depreciation of property and equipment	1,831	1,744
Depreciation of investment property	140	-
Amortisation of intangible assets	178	1,655
Amortisation of premiums net of accretion of discounts	984	1,354
Gain on disposal of investments (net)	(3,774)	(2,991)
Allowance for staff retirement gratuities	183	297
(Writeback)/allowance for diminution in value of investments (net)	(569)	841
Allowance/(writeback) for bad and doubtful debts (net)	13,903	(5,001)
Net (decrease)/increase in unearned premium reserves	(1,979)	7,262
Allowance for short-term accumulating compensated absences	246	(79)
Interest income	(11,892)	(11,048)
Gross dividend income	(2,512)	(3,034)
Rental income	(379)	(618)
Gain on disposal of property and equipment	(118)	(54)
Property and equipment written off	-	7
	<hr/>	<hr/>
	(14,063)	9,775
Changes in operating assets and liabilities:		
Purchase of investments	(60,814)	(67,897)
Net proceeds from disposal of investments and investment property	114,751	28,155
Decrease/(increase) in receivables	5,671	(4,803)
Increase/(decrease) in payables	4,136	(2,717)
Increase in outstanding claims	10,363	4,521
(Increase)/decrease in fixed and call deposits	(56,955)	39,056
Decrease in loans	366	142
	<hr/>	<hr/>
	3,455	6,232

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
(Incorporated in Malaysia)

**CASH FLOW STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)**

**Group and Company**  
**2006                      2005**  
**RM'000                  RM'000**

**CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)**

Interest received (net)	11,553	11,407
Dividend received	1,926	2,363
Rental received	393	541
Retirement benefits paid	(206)	(271)
Tax paid net of recoveries	(12,171)	(10,140)
Net cash generated from operating activities	<u>4,950</u>	<u>10,132</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from disposal of property and equipment	12	57
Purchase of property and equipment	(1,177)	(947)
Net cash used in investing activities	<u>(1,165)</u>	<u>(890)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Dividends paid	(1,800)	(10,800)
Net cash used in financing activities	<u>(1,800)</u>	<u>(10,800)</u>

<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,985	(1,558)
<b>CASH AND BANK BALANCES AT BEGINNING OF YEAR</b>	1,732	3,290
<b>CASH AND BANK BALANCES AT END OF YEAR</b>	<u>3,717</u>	<u>1,732</u>

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

**ORIENTAL CAPITAL ASSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006**

**1. CORPORATE INFORMATION**

The Company is engaged principally in the underwriting of all classes of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The subsidiary ceased underwriting of all classes of general insurance business in a previous financial year and is currently dormant.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Bangunan Oriental Capital, 36, Jalan Ampang, 50450 Kuala Lumpur.

The holding and ultimate holding company is Maika Holdings Berhad, a public limited liability company, incorporated and domiciled in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 March 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation**

The financial statements have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965, the Insurance Act and Regulations, 1996, Guidelines/Circulars issued by Bank Negara Malaysia ("BNM") and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group had adopted new and revised Financial Reporting Standards ("FRS") which are mandatory for financial periods on or after 1 January 2006 as described in Note 2.1.

Assets and liabilities in the Balance Sheet relate to both the General Insurance Fund and the Shareholder's Fund.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **(b) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at the Balance Sheet date. The financial statements of the subsidiary are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. In preparing the consolidated financial statements, intra-group balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisition of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill on consolidation.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition is recognised immediately in the Income Statement.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

### **(c) Intangible Assets**

#### **(i) Goodwill**

Goodwill on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition.

Goodwill on acquisition of business from the subsidiary represents the excess of the original purchase price over the fair value of the assets and liabilities transferred to the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (c) Intangible Assets

#### (i) Goodwill (Contd.)

Following the initial recognition, goodwill is measured at cost less any accumulated amortisation and any accumulated impairment losses. Effective 1 January 2006 goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### (ii) Other Intangible Assets

The other intangible assets of the Group consist of computer software. These intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each Balance Sheet date.

Intangible assets with indefinite lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying values may be impaired either individually or at the cash-generating unit ("CGU") level. The useful lives of intangible assets with indefinite lives are also reviewed annually to determine whether the useful life assessment continues to be supportable.

### (d) Property and Equipment and Depreciation

Property and equipment includes property occupied by the Group, renovations, furniture, fittings, office equipment, computers and motor vehicles. Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Residual values, useful life and depreciation method are reviewed, and adjusted if appropriate, at each Balance Sheet date 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 and equipment. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (d) Property and Equipment and Depreciation (Contd.)

The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Expenditure incurred after items of property and equipment have been put into operations, such as repairs and maintenance, is charged to the Income Statement in the period in which it is incurred. 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

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

Buildings	2%
Renovations	10%
Furniture, fittings and office equipment	12% - 17%
Computers	25%
Motor vehicles	20%

For the freehold property, depreciation is provided on a straight-line basis over the estimated useful life of each significant component and freehold land is not depreciated.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Upon the disposal of a property and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the Income Statement.

### (e) Investment in Subsidiary

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities.

In the Company's separate financial statements, investment in a subsidiary is stated at cost less any accumulated impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the Income Statement.



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (f) Investment Properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not significantly occupied by companies in the Group, for use by, or in the operations of the Group, are classified as investment property. If an investment property becomes owner-occupied, it is reclassified to property and equipment at its carrying value.

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, the investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j).

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Any gains or losses on the retirement or disposal of an investment property are recognised when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Investment property is derecognised (eliminated from the Balance Sheet).

Any gains or losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of retirement or disposal.

### (g) Employee Benefits

#### Short-term Benefits

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

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **(g) Employee Benefits (Contd.)**

#### **Defined Contribution Plan**

As required by law, the Group makes contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the Income Statement/Revenue Account as incurred.

#### **Staff Retirement Benefits**

Provision for retirement benefits is made for all eligible staff in the Group from the date of employment under an unfunded defined contribution plan. For eligible executive staff, gratuity is calculated based on the last drawn monthly salary of an employee multiplied by years of service up to a maximum of 15 years. For eligible clerical staff, an additional 3% over and above the Group's monthly statutory EPF contribution of 12% is provided. The staff will be entitled to this gratuity upon completion of 5 years of service in the Group.

Other staff are entitled to additional EPF contribution between 1% to 5% over the Group's monthly statutory EPF contribution rate of 12% after completion of 1 year of service. This benefit is charged to the Income Statement as incurred.

### **(h) Underwriting Results**

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

#### **Premium Income**

Premium is recognised in a financial period in respect of risks assumed during that particular financial period.

Inward treaty reinsurance premium is recognised on the basis of periodic advices received from ceding insurers.

#### **Unearned Premium Reserves**

Unearned Premium Reserves ("UPR") represent the portion of the net premium of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (h) Underwriting Results (Contd.)

In determining the UPR at Balance Sheet date, the method that most accurately reflects the actual liability is used, as follows:

- 25% method for Marine Cargo, Aviation Cargo and Transit
- 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower:

Motor and Bond	10%
Fire, Engineering, Aviation and Marine Hull	15%
Medical	10% - 15%
Other classes	20%

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

### Provisions 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 settlement together with related expenses for claims incurred but not enough reported ("IBNER"), and incurred and not reported (IBNR) at Balance Sheet date, the latter based on an actuarial valuation by a qualified actuary, using mathematical methods of estimation based on, amongst others, actual claims development pattern, historical and current claims settlement trends, judicial decisions and legislative changes.

### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (h) Underwriting Results (Contd.)

#### **Allowance for Bad and Doubtful Debts**

Full allowance is made in the financial statements for outstanding premiums including agents, brokers, and reinsurers balances in arrears for more than thirty days for motor business and more than six months for other classes of insurance, as stipulated in BNM guidelines.

### (i) Other Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

#### **Interest Income**

Interest income is recognised on an accrual basis using the effective interest method.

#### **Gross Dividend Income**

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

#### **Rental Income**

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

### (j) Impairment of Non-financial Assets

The carrying amounts of assets, other than 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 goodwill, the recoverable amount is estimated at each Balance Sheet date or more frequently when indicators of impairment are identified.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (j) Impairment of Non-financial Assets (Contd.)

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 for the cash-generating unit ("CGU") to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that is expected to benefit from the synergies of the combination.

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 is allocated first to reduce the carrying amount of any goodwill allocated to those units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss is recognised in the Income Statement in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill 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 other than goodwill 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 assets in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the Income Statement.

### (k) Foreign Currencies

Transaction in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange differences are taken to the Income Statement/Revenue Account.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (l) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the 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 profit 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.

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 in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

### (m) Cash and Cash Equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash and bank balances but do not include fixed and call deposits of the General Insurance Fund.

The cash flow statements have been prepared using the indirect method.

### (n) Financial Instruments

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

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (n) Financial Instruments (Contd.)

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

#### **Malaysian Government Securities and Other Approved Investments**

Malaysian Government Securities and other approved investments as specified by Bank Negara Malaysia are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are charged or credited to the income statement/revenue account.

#### **Quoted Investments**

Quoted investments and unit trusts are stated at the lower of cost and market value, determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment is other than temporary, a write down is made against the value of that investment.

#### **Unquoted Investments**

Unquoted investments are stated at cost less provision for any permanent diminution in value. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurs.

#### **Government Guaranteed Bonds and Unquoted Corporate Bonds**

Government guaranteed bonds and unquoted corporate bonds which are secured or which carry a minimum rating of "BBB" (long-term) or "P3" (short-term) or their equivalents by a rating agency established in Malaysia are valued at cost adjusted for amortisation of premiums or accretion of discounts, calculated from the date of purchase to maturity date. Any corporate bond with a lower rating is valued at the lower of cost or net realisable value.

#### **Receivables**

Receivables are carried at anticipated realisable values.

#### **Payables**

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### (n) Financial Instruments (Contd.)

#### Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and reflected in the statement of changes in equity in the period in which they are declared.

### 2.1 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs")

On 1 January 2006, the Group and the Company adopted the following FRSs which are mandatory for financial periods 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 Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of revised FRS 5, 101, 108, 110, 116, 121, 127, 132, 133 and 136 does not have any impact or did not result in significant changes in accounting policies of the Group. FRS 2, 102, 128 and 131 are not relevant to the Group.

The principal changes in accounting policies and the effects resulting from the adoption of FRS 3, FRS 138 and FRS 140 are discussed below:



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.1 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (Contd.)

#### **FRS 3: Business Combinations**

Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 20 years and at each Balance Sheet date, the Group assessed if there is any indication of impairment of the CGU to which the goodwill is attached to. The adoption of FRS 3 and the revised FRS 136 has resulted in the Group ceasing annual goodwill amortisation. Goodwill is now carried at cost less accumulated amortisation losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

In accordance with the transitional provisions of FRS 3, the Group has applied the revised accounting policy for goodwill prospectively from 1 January 2006. The transitional provisions of FRS 3 also required the Group to eliminate the carrying amount of the accumulated amortisation as at 1 January 2006 of RM7,862,000 against the carrying amount of goodwill. The net carrying amount of goodwill as at 1 January 2006 of RM25,246,000 ceased to be amortised thereafter.

The change has no impact on amounts reported for 2005 or prior periods as the revised accounting policy has been applied prospectively. The effects on the consolidated Balance Sheet as at 31 December 2006 and consolidated Income Statement for the year ended 31 December 2006 are set out in the note below.

#### **FRS 138: Intangible Assets**

Previously, computer software was included under property and equipment. FRS 138: Intangible Assets requires reclassification of computer software, which is not an integral part of a related hardware, as an intangible asset and is amortised over its useful life. A computer software is an integral part of a related hardware if the hardware requires this specific software to operate.

The change has not given rise to any material adjustments to the opening balances of retained profits of the prior and current year or to changes in comparatives.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.1 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (Contd.)

#### FRS 140: Investment Property

Prior to 1 January 2006, investment properties were not depreciated and were stated at cost less any accumulated impairment losses. The Group has adopted the cost model of FRS 140 for investment properties which requires investment properties to be stated at cost less accumulated depreciation and any accumulated impairment losses. Hence, the change in the Group's accounting policy on investment properties requires depreciation to be provided retrospectively, and as disclosed in Note 2(f).

The change has not given rise to any material adjustments to the opening balances of retained profits of the prior and current year or to changes in comparatives.

The Group has not adopted the deferred FRS 139 Financial Instruments: Recognition and Measurement as well as the following FRSs and amendments that are mandatory for financial periods beginning on or after 1 January 2007:

- (i) FRS 6 Exploration for and Evaluation of Mineral Resources
- (ii) FRS 117 Leases
- (iii) Amendment to FRS 119<sup>2004</sup> Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
- (iv) FRS 124 Related Party Disclosures

FRS 6, FRS 117 and amendment to FRS 119<sup>2004</sup> are not relevant to the Group's operations. FRS 124 will affect the level and extent of related party disclosures of the Group.

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

Group and Company	Increase/(decrease)		Total
	FRS 3 RM'000	FRS 140 RM'000	
<b>Income Statement</b>			
Other operating expenses	(1,655)	-	(1,655)
Management expenses	-	140	140
Loss before taxation	(1,655)	140	(1,515)
Loss for the year	(1,655)	140	(1,515)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.1 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (Contd.)

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

Group and Company	Increase/(decrease)		Total RM'000
	FRS 3 RM'000	FRS 140 RM'000	
<b>Balance Sheet</b>			
Goodwill	1,655	-	1,655
Investment property	-	(140)	(140)

#### Restatement of comparatives

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

Group and Company	Previously stated	Increase/ (decrease)	Restated
		FRS138 RM'000	
<b>At 31 December 2005</b>			
<b>Balance Sheet</b>			
Property and equipment	15,667	(303)	15,364
Intangible assets	25,246	303	25,549

### 2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may cause material adjustments to the carrying amounts of assets and liabilities within the next financial year such as those discussed below:

#### **FRS 116: Property, Plant and Equipment**

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 at each financial year end.

Management estimates that the residual values and remaining useful lives are applicable for the current financial year.

#### **Uncertainty in accounting estimates for general insurance business**

The principal uncertainty in the Company's general insurance business arises from the technical provisions which include the provisions of premiums and claims liabilities. The premium liabilities comprise unearned premium reserves (UPR) while claim liabilities comprise provision for outstanding claims.

The computation of UPR is based on the required statutory computation iterated in Note 2 (h) unless policy terms dictate alternative method of provisions.

Claims liabilities comprise outstanding claims as explained in Note 2 (h). The company is guided by Bank Negara Guidelines and internal claims reserving policies in making technical provisions. These provisions are expected to take into consideration the reporting and settlement lags in claims, and any significant claims development patterns.

Effective 2006 the Company has recognised potential reinstatement premium expense for unsettled claims under the non proportional treaty arrangements. The treaty is in force until a claims settlement is made and a reinstatement premium becomes payable, and provisions are made when this does not happen in the claims loss year.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD.)**

#### **Uncertainty in accounting estimates for general insurance business (Contd.)**

In 2006 the Company estimated and recognised provisional reinstatement premium of RM 2,862,000 arising from prior and current year reported claims.

#### **Estimated impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the policy stated in Note 2(c)(i).

The recoverable amount of the goodwill is determined based on the value-in-use method, which requires the use of estimates. The value-in-use method apply a discounted cash flow model using cash flow projections based on approved budgets and forecasts as disclosed in Note 7.

#### **Deferred tax assets**

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

## 3. PROPERTY AND EQUIPMENT

Group and Company	Land and buildings* RM'000	Renovations RM'000	Furniture, fittings, office equipment and computers RM'000	Motor vehicles RM'000	Total RM'000
<b>At 31 December 2006</b>					
<b>Cost or valuation</b>					
At 1 January 2006	13,534	1,960	14,698	1,844	32,036
Additions	-	17	1,084	24	1,125
Disposals	-	-	-	(53)	(53)
Write offs	-	-	-	-	-
At 31 December 2006	13,534	1,977	15,782	1,815	33,108
<b>Accumulated depreciation and impairment</b>					
At 1 January 2006	1,421	1,245	12,262	1,744	16,672
Charge for the year	86	197	1,496	52	1,831
Disposals	-	-	-	(53)	(53)
Write offs	-	-	-	-	-
At 31 December 2006	1,507	1,442	13,758	1,743	18,450
<b>Net carrying amount</b>	<b>12,027</b>	<b>535</b>	<b>2,024</b>	<b>72</b>	<b>14,658</b>
<b>At 31 December 2005</b>					
<b>Cost or valuation</b>					
At 1 January 2005	13,534	1,960	14,220	2,004	31,718
Additions	-	-	715	123	838
Disposals	-	-	(30)	(283)	(313)
Write offs	-	-	(207)	-	(207)
At 31 December 2005	13,534	1,960	14,698	1,844	32,036
<b>Accumulated depreciation and impairment</b>					
At 1 January 2005	1,336	1,049	11,243	1,980	15,608
Charge for the year	85	196	1,245	47	1,573
Disposals	-	-	(27)	(283)	(310)
Write offs	-	-	(199)	-	(199)
At 31 December 2005	1,421	1,245	12,262	1,744	16,672
<b>Net carrying amount</b>	<b>12,113</b>	<b>715</b>	<b>2,436</b>	<b>100</b>	<b>15,364</b>

### 3. PROPERTY AND EQUIPMENT (CONTD.)

\*Land and buildings of the Group and Company

	Freehold land RM'000	Buildings RM'000	Total RM'000
<b>At 31 December 2006</b>			
<b>Cost or valuation</b>			
At 1 January/ 31 December 2006	9,263	4,271	13,534
<b>Accumulated depreciation and impairment</b>			
At 1 January 2006	-	1,421	1,421
Charge for the year	-	86	86
At 31 December 2006	-	1,507	1,507
<b>Net carrying amount</b>	<b>9,263</b>	<b>2,764</b>	<b>12,027</b>
<b>At 31 December 2005</b>			
<b>Cost or valuation</b>			
At 1 January/ 31 December 2005	9,263	4,271	13,534
<b>Accumulated depreciation and impairment</b>			
At 1 January 2005	-	1,336	1,336
Charge for the year	-	85	85
At 31 December 2005	-	1,421	1,421
<b>Net carrying amount</b>	<b>9,263</b>	<b>2,850</b>	<b>12,113</b>

### 4. DEFERRED TAX ASSETS

	Group and Company	
	2006 RM'000	2005 RM'000
At beginning of year	2,199	2,035
Recognised in the Income Statement (Note 21)	1,551	164
At end of year	3,750	2,199

#### 4. DEFERRED TAX ASSETS (CONTD.)

The components and movement of deferred tax liabilities and deferred tax assets during the financial year are as follows:

2006

##### Deferred Tax Liabilities

	Accelerated capital allowances RM'000	Total RM'000
At beginning of year	571	571
Recognised in the Income Statement	(254)	(254)
At end of year	<u>317</u>	<u>317</u>

##### Deferred Tax Assets

	Unutilised losses and capital allowances RM'000	Receivables RM'000	Unearned premium reserves RM'000	Others* RM'000	Total RM'000
At beginning of year	-	270	800	1,700	2,770
Recognised in the Income Statement	315	907	(60)	135	1,297
At end of year	<u>315</u>	<u>1,177</u>	<u>740</u>	<u>1,835</u>	<u>4,067</u>

2005

##### Deferred Tax Liabilities

	Accelerated capital allowances	Total
	-	-
At beginning of year	624	624
Recognised in the Income statement	(53)	(53)
At end of year	<u>571</u>	<u>571</u>



## 4. DEFERRED TAX ASSETS (CONTD.)

## Deferred Tax Assets

	Unutilised losses and capital allowances RM'000	Receivables RM'000	Unearned premium reserves RM'000	Others* RM'000	Total RM'000
At beginning of year	-	270	333	2,056	2,659
Recognised in the Income Statement	-	-	467	(356)	111
At end of year	-	270	800	1,700	2,770

\* Others comprise provision for diminution in value of investment, accumulated amortisation/accretion of premiums/discounts and accruals for management expenses.

## 5. INVESTMENTS

	Group and Company	
	2006 RM'000	2005 RM'000
Investments, at cost	308,655	304,134
Accumulated depreciation	(140)	-
Amortisation of premiums net of accretion of discounts	(1,221)	(2,274)
Provision for diminution in value of investment	(137)	(1,046)
	<u>307,157</u>	<u>300,814</u>

Group and Company	2006		2005	
	Cost RM'000	Market/ indicative value RM'000	Cost RM'000	Market/ indicative value RM'000
Investment properties, at cost				
Freehold land and buildings	2,581		7,340	
Less: Accumulated depreciation	(140)		-	
	<u>2,441</u>	<u>2,800</u>	<u>7,340</u>	<u>7,340</u>

## 5. INVESTMENTS (CONTD.)

Group and Company	2006		2005	
	Cost RM'000	Market/ indicative value RM'000	Cost RM'000	Market/ indicative value RM'000
Malaysian Government Securities	43,470		46,544	
Amortisation of premiums net of accretion of discounts	(1,366)		(869)	
	<u>42,104</u>	<u>42,559</u>	<u>45,675</u>	<u>46,752</u>
Cagamas papers	15,000		15,000	
Amortisation of premiums net of accretion of discounts	-		-	
	<u>15,000</u>	<u>15,032</u>	<u>15,000</u>	<u>14,988</u>
Quoted in Malaysia:				
Shares of corporations	47,006		52,473	
Provision for diminution in value	(47)		(82)	
	<u>46,959</u>	<u>56,111</u>	<u>52,391</u>	<u>52,640</u>
Corporate bonds	265		1,705	
Provision for diminution in value	(41)		(893)	
	<u>224</u>	<u>227</u>	<u>812</u>	<u>812</u>
Unit and property trusts	13,170		7,041	
Provision for diminution in value	(49)		-	
	<u>13,121</u>	<u>13,224</u>	<u>7,041</u>	<u>7,116</u>
Unquoted:				
Shares of corporations	219		290	
Provision for diminution in value	-		(71)	
	<u>219</u>		<u>219</u>	

## 5. INVESTMENTS (CONTD.)

Group and Company	2006		2005	
	Cost RM'000	Market/ indicative value RM'000	Cost RM'000	Market/ indicative value RM'000
Corporate bonds (Note a)	48,326		92,079	
Accretion of discounts net of amortisation of premiums	145		(1,405)	
	<u>48,471</u>	<u>50,300</u>	<u>90,674</u>	<u>90,953</u>
Fixed and call deposits with financial institutions:				
Commercial banks	74,365		61,782	
Finance companies	4,284		5,991	
Other corporations	59,969		13,889	
	<u>138,618</u>		<u>81,662</u>	
<b>TOTAL INVESTMENTS</b>	<u>307,157</u>		<u>300,814</u>	

(a) All unquoted corporate bonds carry a minimum rating of "BBB" (long-term) or "P3" (short-term) or their equivalents by a rating agency established in Malaysia.

	Group and Company	
	2006 RM'000	2005 RM'000
Investments maturing after 12 months:		
Malaysian Government Securities	28,644	28,522
Cagamas papers	10,000	15,000
Unquoted corporate bonds	<u>38,280</u>	<u>43,005</u>

The weighted average rates of returns and remaining maturity of deposits as at the balance sheet date were as follows:

	Weighted average rate of return		Weighted average remaining maturity	
	2006 (% p.a.)	2005 (% p.a.)	2006 (Days)	2005 (Days)
Malaysian Government Securities	6.77	7.14	577	654
Unquoted corporate bonds	3.70	5.70	790	778
Fixed and call deposits	<u>3.08</u>	<u>2.90</u>	<u>117</u>	<u>127</u>

## 6. INVESTMENT IN SUBSIDIARY

	Company	
	2006	2005
	RM'000	RM'000
Unquoted shares, at cost	50,000	50,000

The Company has a 100% interest (2005: 100%) in the subsidiary, Capital OCA Berhad, a company incorporated in Malaysia.

The subsidiary ceased underwriting of all classes of general insurance business in a previous financial year and is currently dormant.

## 7. INTANGIBLE ASSETS

	Group and Company	
	2006	2005
	RM'000	RM'000
Goodwill on acquisition of business (Note a)	25,246	25,246
Computer software (Note b)	177	303
	<u>25,423</u>	<u>25,549</u>
<b>(a) Goodwill on acquisition of business</b>	25,246	33,108
Less: Impairment/amortisation	-	(7,862)
	<u>25,246</u>	<u>25,246</u>

### Impairment test for goodwill

In accordance with FRS 136 the carrying amount of the goodwill resulted from the acquisition of Capital OCA Berhad is assessed for impairment on an annual basis. The recoverable value of goodwill is based on the value in use method, applying a discounted cash flow model using cash flow projections based on approved budget and forecasts.

The indicative value in use of the goodwill on acquisition was estimate to be higher than its net carrying amount in the impairment test. The indicative value in use of the goodwill will vary as follows if the discounted rate were to differ by one percentage point upward or downward as shown in the following sensitivity analysis.

Sensitivity analysis	Change in pre-tax discount rate	
	Increase by 1%	Decrease by 1%
Change in indicative value in use (RM million)	4.1	5.2
Impairment test	No impairment	No impairment

## 7. INTANGIBLE ASSETS (CONTD.)

### (a) Goodwill on acquisition of business (Contd.)

#### Impairment test for goodwill (contd.)

Under the model the discounted rate applied is 11% which reflects the pretax cost of equity. Cash flows have been projected for 5 years (2007 to 2011).

Key assumptions used in the budget and forecasts that give rise to sensitivity are as follows:

1. Gross premium growth rates reflect the Company's historical performance. Growth rate of 9.6% per annum is budgeted for 2007 and is reduced by 1 percentage point for every year thereafter.
2. Management expenses increase at 3% annually, taking into consideration human resource policy on attrition and recruitment over the last five years.

### (b) Computer software

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 January	1,514	1,405
Addition	52	109
At 31 December	<u>1,566</u>	<u>1,514</u>
<b>Accumulated Amortisation and Impairment</b>		
At 1 January	1,211	1,040
Amortisation	178	171
At 31 December	<u>1,389</u>	<u>1,211</u>
<b>Net carrying amount</b>		
At 31 December	<u>177</u>	<u>303</u>

**8. LOANS**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Staff mortgage loans (secured)	1,455	1,811
Other staff loans:		
Secured	130	142
Unsecured	35	33
	<u>1,620</u>	<u>1,986</u>
Receivable after 12 months	<u>1,371</u>	<u>1,855</u>

The weighted average effective interest rate for staff loans as at the balance sheet date was 5% (2005: 5%) p.a. on the basis of monthly rest.

**9. RECEIVABLES**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Trade receivables:</b>		
Due premiums including agents/brokers and co-insurers balances	27,786	22,241
Amount due from reinsurers and cedants	31,638	42,947
	<u>59,424</u>	<u>65,188</u>
Allowance for doubtful debts	(27,252)	(13,349)
	<u>32,172</u>	<u>51,839</u>
<b>Other receivables:</b>		
Sundry receivables, deposits and prepayments	3,952	4,071
Income due and accrued	2,584	2,245
Tax recoverable	12,477	290
	<u>19,013</u>	<u>6,606</u>
<b>TOTAL RECEIVABLES</b>	<u>51,185</u>	<u>58,445</u>

Included in trade receivables are amounts due from the holding company, Maika Holdings Berhad, a fellow subsidiary, Maika Intellectual Resources Sdn. Bhd. and a director related corporation, Asian Institute of Medicine, Science and Technology ("AIMST") of RM79,000 (2005: RM22,000), RMNil (2005: RM30,000) and RM1,204,000 (2005: RM272,000) respectively.

The Company has not received third party statements to facilitate the reconciliation exercise for trade receivables amounting to RM970,000 (debit) and RM16,000 (credit).

**10. SHARE CAPITAL**

	Number of ordinary shares of RM1 each		Amount	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
<b>Authorised:</b>				
At beginning/end of year	200,000	200,000	200,000	200,000
<b>Issued and fully paid up:</b>				
At beginning/end of year	100,013	100,013	100,013	100,013

**11. AMOUNT DUE TO SUBSIDIARY**

The amount due to the subsidiary is unsecured, interest-free and has no fixed terms of repayment.

**12. PROVISION FOR OUTSTANDING CLAIMS**

	Group and Company	
	2006 RM'000	2005 RM'000
Provision for outstanding claims	393,095	401,458
Recoverable from reinsurers	(224,336)	(243,061)
Net outstanding claims	168,759	158,397

**13. PAYABLES**

	Group and Company	
	2006 RM'000	2005 RM'000
<b>Trade payables:</b>		
Due to reinsurers and cedants	29,535	28,118
Due to agents/brokers/co-insurers and insureds	9,112	7,259
	38,647	35,377
<b>Other payables:</b>		
Sundry payables and accrued liabilities	16,983	16,064
<b>TOTAL PAYABLES</b>	55,630	51,441

**13. PAYABLES (CONTD.)**

As at 31 December 2006, there were unreconciled balances of RMNil (2005: RM57,000) (debit) which represent the unreconciled differences between the Company's records and third party statements from reinsurers, ceding companies, co-insurers and brokers.

Furthermore, the Company has not received third party statements to facilitate the reconciliation exercise for trade payables amounting to RMNil (debit) and RM966,000 (credit).

**14. RETIREMENT BENEFITS**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of year	2,651	2,625
Provision for the year	183	297
	<u>2,834</u>	<u>2,922</u>
Payments during the year	(207)	(271)
At end of year	<u>2,627</u>	<u>2,651</u>
Amount payable after 12 months	<u>2,336</u>	<u>2,446</u>

**15. UNEARNED PREMIUM RESERVES**

<b>Group and Company</b>	<b>Marine, Aviation and</b>					<b>Total</b>
	<b>Fire</b>	<b>Motor</b>	<b>Transit</b>	<b>Misc.</b>	<b>RM'000</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	
<b>2006</b>						
At beginning of year	4,589	35,999	8,812	4,963	54,363	
(Decrease)/increase in unearned premium reserves	86	(3,276)	1,306	(95)	(1,979)	
At end of year	<u>4,675</u>	<u>32,723</u>	<u>10,118</u>	<u>4,868</u>	<u>52,384</u>	
<b>2005</b>						
At beginning of year	2,542	32,886	6,886	4,787	47,101	
Increase in unearned premium reserves	2,047	3,113	1,926	176	7,262	
At end of year	<u>4,589</u>	<u>35,999</u>	<u>8,812</u>	<u>4,963</u>	<u>54,363</u>	



**16. OPERATING REVENUE**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>General business:</b>		
Gross premiums	348,329	322,143
Investment income (Note 17)	13,713	13,269
	<u>362,042</u>	<u>335,412</u>
<b>Shareholders' fund:</b>		
Investment income (Note 17)	86	77
	<u>362,128</u>	<u>335,489</u>

**17. INVESTMENT INCOME**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>General business:</b>		
Interest income from:		
Malaysian Government Securities	3,122	2,958
Corporate bonds	4,695	4,924
Fixed and call deposits	3,430	2,904
Staff loans	87	103
Others	472	82
	<u>11,806</u>	<u>10,971</u>
Gross dividends from shares quoted in Malaysia	2,512	3,034
Amortisation of premiums net of accretion of discounts	(984)	(1,354)
Rental income	379	618
	<u>13,713</u>	<u>13,269</u>
<b>Shareholders' fund:</b>		
Interest income from fixed and call deposits	86	77
	<u>86</u>	<u>77</u>
<b>TOTAL INVESTMENT INCOME</b>	<u>13,799</u>	<u>13,346</u>

**18. OTHER OPERATING INCOME/(EXPENSES) (NET)**

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
<b>General business:</b>				
Other income:				
Gain on disposal of investments	7,299	4,467	7,299	4,467
Write-back of diminution in value of investments	976	135	976	135
Gain on disposal of property and equipment	118	54	118	54
Sundry income	11	48	11	48
	<u>8,404</u>	<u>4,704</u>	<u>8,404</u>	<u>4,704</u>
Other expenses:				
Loss on disposal of investments	(3,525)	(1,476)	(3,525)	(1,476)
Provision for diminution in value of investments	(407)	(976)	(407)	(976)
Write-off of property and equipment	-	(7)	-	(7)
Other operating income (net)	<u>4,472</u>	<u>2,245</u>	<u>4,472</u>	<u>2,245</u>
<b>Shareholders' fund:</b>				
Amortisation of goodwill	-	(1,655)	-	(1,655)
Other operating expense	-	(1,655)	-	(1,655)
<b>TOTAL OTHER OPERATING INCOME (NET)</b>	<u>4,472</u>	<u>590</u>	<u>4,472</u>	<u>590</u>

**19. NET CLAIMS INCURRED**

	Fire RM'000	Motor RM'000	Marine, Aviation and Transit RM'000	Misc. RM'000	Total RM'000
<b>Group and Company</b>					
<b>2006</b>					
Gross claims paid less salvage	7,999	70,211	58,534	10,177	146,921
Reinsurance recoveries	(4,762)	(8,820)	(41,422)	(3,286)	(58,290)
Net claims paid	3,237	61,391	17,112	6,891	88,631
Net outstanding claims:					
At end of year	10,131	96,584	39,093	22,951	168,759
At beginning of year	8,932	96,262	29,400	23,803	158,397
Net claims incurred	4,436	61,713	26,805	6,039	98,993
<b>2005</b>					
Gross claims paid less salvage	8,145	60,632	168,151	24,187	261,115
Reinsurance recoveries	(5,956)	(7,472)	(156,412)	(17,657)	(187,497)
Net claims paid	2,189	53,160	11,739	6,530	73,618
Net outstanding claims:					
At end of year	8,932	96,262	29,400	23,803	158,397
At beginning of year	8,974	98,497	25,821	20,584	153,876
Net claims incurred	2,147	50,925	15,318	9,749	78,139

**20. MANAGEMENT EXPENSES**

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>General business:</b>				
Staff costs:				
Directors' emoluments (Note a)	408	385	408	385
Pension costs - EPF (excluding directors' and chief executive officer ("CEO")'s emoluments) (Note a)	1,554	1,633	1,554	1,633
Provision for staff retirement gratuities	183	297	183	297
Short-term accumulating compensated absences	246	(79)	246	(79)
Salaries, bonus, allowances and other related costs	11,136	11,877	11,136	11,877
	<u>13,527</u>	<u>14,113</u>	<u>13,527</u>	<u>14,113</u>
Directors' emoluments (Note a):				
Fees	102	108	102	108
Other emoluments	70	65	70	65
Auditors' remuneration:				
Audit fees	117	92	115	90
Others	15	10	15	10
Rental of premises	631	646	631	646
Depreciation:				
Investment property	140	-	140	-
Property and equipment	1,831	1,744	1,831	1,744
Amortisation of intangible assets	178	1,655	178	1,655
Provision for insurance guarantee scheme levy	340	313	340	313
Allowance for bad and doubtful debts	13,935	340	13,935	340
Write-back of allowance for bad and doubtful debts	(391)	(5,341)	(391)	(5,341)
Others	8,442	6,949	8,444	6,951
	<u>8,442</u>	<u>6,949</u>	<u>8,444</u>	<u>6,951</u>
<b>TOTAL MANAGEMENT EXPENSES</b>	<u>38,937</u>	<u>20,694</u>	<u>38,937</u>	<u>20,694</u>

**20. MANAGEMENT EXPENSES (CONTD.)**

## (a) Emoluments of directors and CEO

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
CEO/executive director:		
Salary	337	335
EPF	59	38
Benefits-in-kind	13	13
Other emoluments	12	12
	<u>421</u>	<u>398</u>
Executive director:		
Director's fees	10	-
Other emoluments	4	-
Non-executive directors:		
Directors' fees	92	108
Other emoluments	66	65
	<u>172</u>	<u>173</u>
Total directors' emoluments	<u>593</u>	<u>571</u>
Total included as staff costs (excluding benefits-in-kind)	<u>408</u>	<u>385</u>

The number of directors whose remuneration during the year falls within the following bands is analysed below:

	<b>Number of directors</b>	
	<b>2006</b>	<b>2005</b>
Executive directors		
RM400,000 - RM450,000	1	-
RM350,000 - RM400,000	-	1
Below RM50,000	1	-
Non-executive directors		
Below RM50,000	7	7

**21. TAXATION**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income tax	8	8,007	8	8,007
Deferred tax relating to origination and reversal of temporary differences (Note 4)	(1,551)	(164)	(1,551)	(164)
Net under/(over) provision of taxation in prior years	565	3,101	565	3,101
<b>Tax expense for the year</b>	<b>(978)</b>	<b>10,944</b>	<b>(978)</b>	<b>10,944</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit before taxation	(10,305)	19,440	(10,305)	19,440
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	(2,885)	5,443	(2,885)	5,443
Income not subject to tax	-	(13)	-	(13)
Effect of change in tax rate	290	-	290	-
Expenses not deductible for tax purposes	1,726	1,888	1,726	1,888
Overprovision of taxation in prior years	565	3,101	565	3,101
(Over)/underprovision of deferred taxation in prior years	(674)	525	(674)	525
<b>Tax expenses for the year</b>	<b>(978)</b>	<b>10,944</b>	<b>(978)</b>	<b>10,944</b>

Current income tax is calculated at the Malaysian tax rate of 28% (2005: 28%) on the estimated assessable profit for the year. The statutory tax rate will be reduced to 27% in 2007 and 26% in 2008 from the current year's rate of 28%. The change in tax rates has been reflected in the computation of deferred tax as at 31 December 2006 as appropriate.

As at 31 December 2006, the Company has tax exempt income account of approximately RM17,495,000 (2005: RM16,678,000) which can be utilised for declaration of tax exempt dividends subject to agreement with the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt balance to frank the payment of dividends out of its entire retained profits as at 31 December 2006.

**22. (LOSS)/EARNINGS PER SHARE**

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit attributable to shareholders by the total number of ordinary shares in issue during the year.

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net (loss)/profit for the year (RM'000)	(9,327)	8,496	(9,327)	8,496
Number of ordinary shares in issue ('000)	100,013	100,013	100,013	100,013
Basic (loss)/earnings per share (sen)	<u>(9.3)</u>	<u>8.5</u>	<u>(9.3)</u>	<u>8.5</u>

There is no dilution of (loss)/earnings per share as there were no dilutive potential ordinary shares as at 31 December 2006.

**23. DIVIDENDS**

	<b>Amount</b>		<b>Net dividend per share</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>Sen</b>	<b>Sen</b>
Final dividend for 2005 of 2.5% (2004: 5%) less 28% taxation	1,800	3,600	1.8	3.6
Interim dividend of nil (2005: 5%) less 28% taxation	-	3,600	-	3.6
	<u>1,800</u>	<u>7,200</u>	<u>1.8</u>	<u>7.2</u>

In the annual report of the previous year, it was disclosed that a final dividend in respect of the financial year ended 31 December 2005 of 5% on 100,013,218 ordinary shares less 28% taxation amounting to a total dividend of RM3,600,000 (5 sen gross per share) would be proposed for shareholders' approval. However, the said final dividend declared and paid amounted to a total dividend of RM1,800,238 (2.5 sen gross per share).

The directors do not propose any dividends in respect of the current financial year.

**24. SEGMENT INFORMATION ON CASH FLOW**

	<b>General business RM'000</b>	<b>Shareholders' fund RM'000</b>	<b>Total RM'000</b>
<b>Group and Company</b>			
<b>2006</b>			
Cash flows from:			
Operating activities	4,950	-	4,950
Investing activities	(1,165)	-	(1,165)
Financing activities	(1,800)	-	(1,800)
	<u>1,985</u>	<u>-</u>	<u>1,985</u>
Net increase in cash and cash equivalents:			
At beginning of financial year	1,732	-	1,732
At end of financial year	3,717	-	3,717
	<u>1,985</u>	<u>-</u>	<u>1,985</u>

	<b>General business RM'000</b>	<b>Shareholders' fund RM'000</b>	<b>Total RM'000</b>
<b>Group and Company</b>			
<b>2005</b>			
Cash flows from:			
Operating activities	10,132	-	10,132
Investing activities	(890)	-	(890)
Financing activities	(10,800)	-	(10,800)
	<u>(1,558)</u>	<u>-</u>	<u>(1,558)</u>
Net increase in cash and cash equivalents:			
At beginning of financial year	3,290	-	3,290
At end of financial year	1,732	-	1,732
	<u>(1,558)</u>	<u>-</u>	<u>(1,558)</u>



**25. SIGNIFICANT RELATED PARTY TRANSACTIONS**

	<b>Group and Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Premium income:		
Holding company	30	29
Director-related corporation, Asian Institute of Medicine, Science and Technology ("AIMST")	474	341
Fellow subsidiary, Maika Intellectual Resources Sdn. Bhd.	52	29
Purchase of computers from a fellow subsidiary, Maika Intellectual Resources Sdn. Bhd.	301	329
	<hr/>	<hr/>

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

**26. FINANCIAL INSTRUMENTS****(a) Fair Values**

The aggregate net fair values of financial assets not carried at fair values on the balance sheet of the Group and of the Company are represented as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Investments:				
Malaysian Government				
Securities	42,104	42,559	45,675	46,752
Cagamas papers	15,000	15,032	15,000	14,988
Quoted shares and bonds of corporations	47,183	56,338	53,203	53,452
Quoted unit and property trusts	13,121	13,224	7,041	7,116
Unquoted corporate bonds	48,471	50,300	90,674	90,953
	<hr/>	<hr/>	<hr/>	<hr/>

## **26. FINANCIAL INSTRUMENTS (CONTD.)**

### **(a) Fair Values (Contd.)**

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

### **(b) 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 the balance due to the subsidiary as it is not practical to determine its fair value with sufficient reliability given that the balance has no fixed terms of repayment.

### **(c) Investments**

The fair values of Malaysian Government Securities, Cagamas papers and unquoted corporate bonds are indicative values obtained from the secondary market.

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

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

## **27. COMPANY WIDE RISK**

The Company is exposed to a variety of risks which includes investment, foreign currency, interest rate, credit, liquidity, insurance and operational risks.

The Risk Management Committee ensures that the risk framework is effective to carry out the risk management strategies laid down and work within the tolerance limits provided for the various business activities. In addition, limits of authority are also set in line with the Company's risk appetite.

The Company is also making a conscious attempt to reduce company wide risk in preparation for the impending Risk Based Capital Framework that comes into force in 2008. This is attended to through proper capital requirement planning, aligning with business plans and strategies and risk charges for all company wide activities. The Company also considers the shareholders' plans for the future.

## **27. COMPANY WIDE RISK (CONTD.)**

### **(a) Investment Risk**

Market risk arises with changes in equity and bond prices. This risk is mitigated through proper initial and continuous credit evaluation of bonds and shares respectively, purchase of high grade shares and bonds, and constant watch on investment portfolio for adverse changes and opportunities.

Credit risk especially settlement risk is mitigated with proper credit monitoring of bonds held.

Fund managers' performance are monitored constantly, parameters are prescribed to fund managers according to the Company's risk appetite on purchase of equity, bonds and unit trusts, and by placing limits on categories of purchase.

Holding of unquoted shares is progressively reduced, with an emphasis on risk and return.

### **(b) Interest Rate Risk**

The Company has no borrowings, hence limiting its exposure to interest risk to holdings in term deposits, corporate bonds and government securities. The interest and capital value of the latter may be affected by changes in the interest yield curve. The Company has an investment policy that investments are made at competitive interest rates.

### **(c) Liquidity Risk**

Liquidity risk is the risk where the Company is unable to meet its obligations in a timely manner at a reasonable cost at any time. The Company maintains a large tranche of liquid asset instruments, primarily bank deposits and Malaysian Government Securities, to ensure high liquidity.

### **(d) Foreign Currency and Credit Risk**

Settlements on receivables and payables on business ceded and received from overseas reinsurers and brokers expose the Company to foreign exchange risks.

Treaty reinsurers and brokers credit ratings are evaluated prior to entering into treaty arrangements. The Company observes the Bank Negara Guidelines and internal company policies in assessing the credit ratings of reinsurers and brokers.

## 27. COMPANY WIDE RISK (CONTD.)

### (d) Foreign Currency and Credit Risk (Contd.)

The settlement risks are also mitigated through prompt reconciliations of records and recovery actions, avoiding at all times delays in collection from reinsurers and entering into commutations for run off reinsurers. The Company has tightened the credit collection and recovery policies to expedite collections. The Company is unable to avoid any deterioration in credit ratings of reinsurers after inception of treaties.

### (e) Insurance Risk

The Group has in place comprehensive underwriting guidelines and limits of authority to ensure that risks are accepted in accordance with the authorized limits. The retention of risks is protected by proportional and non proportional treaties with reputable reinsurers and brokers, and premised on the risk appetite of the Company.

### (f) Operational Risk

Good internal control framework, compliance to regulatory guidelines and observance to best practices enable the Company to mitigate its operational risks. Internal audit plan and risk based audits coupled with periodic reviews on compliance to policies and procedures enable the Company to have the best processes in a controlled environment.

## ADDITIONAL INFORMATION

## 1. Responsibility Statement

This Circular has been seen and approved by the Directors of Salcon and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other material facts the omission of which would make any statement herein misleading.

The information relating to Oriental has been obtained from the management of the company and the sole responsibility of the Directors of Salcon is limited to ensuring that such information is accurately reproduced in this Circular.

## 2. Consents and Declaration by Advisers

The written consent of MIMB and KPMG for the inclusion in this Circular of their names and all references thereto, where relevant, in the form and context in which they appear have been given and have not been subsequently withdrawn.

Save as disclosed below and to the best of MIMB's knowledge and belief, MIMB is not aware of any other potential conflict of interest that exists or is likely to exist in respect of its role as the Adviser to the Company for the Proposals:-

- (a) Banking facilities granted to the Salcon Group by EON Bank Berhad, the parent company of MIMB

	Approved limit (RM'000)	Outstanding balance as at 15 September 2007 (RM'000)
Overdrafts	500	-
Revolving credit	4,000	-
Standby letter of credit/Letter of credit/Trust receipt/Bankers acceptance/Bank guarantee/Shipping guarantee	35,204	30,204
Foreign exchange contract line	500	-
Term loan <sup>(1)</sup>	126,000	-
Bridging loan	27,000	10,000
<b>Total</b>	<b>193,204</b>	<b>40,204</b>

Note:

- (1) An amount up to RM95 million is proposed to be utilised to finance the Proposed Acquisition while the remaining balance of up to RM31 million is to finance the Proposed Mandatory General Offer.

- (b) Substantial shareholder of Salcon and ECB

Employees Provident Fund, a substantial shareholder of Salcon, also holds equity interest in ECB, the ultimate holding company of MIMB, as follows:-

	Equity interest held in Salcon		Equity interest held in ECB	
	Direct	Indirect	Direct	Indirect
EPF	1.85% <sup>(1)</sup>	3.77% <sup>(1)</sup>	2.78% <sup>(2)</sup>	2.58% <sup>(2)</sup>

Notes:-

- (1) Shareholding as at 15 September 2007  
(2) Shareholding as at 15 September 2007

KPMG had via its letter dated 21 September 2007 confirmed that there is no conflict of interest that exists or is likely to exist in its capacities as the Reporting Accountant for the Proposals.

### 3. Material Contracts

#### Salcon

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Salcon Group within the two (2) years immediately preceding the date of this Circular:

- (a) Underwriting Agreement dated 5 April 2007 entered into between Salcon and MIMB in respect of the underwriting of up to 127,227,241 new Salcon shares with free detachable warrants for an underwriting commission of 2.0% on the value of new Salcon shares of RM0.50 each with free detachable warrants underwritten, based on the issue price of RM0.57 per new Salcon share;
- (b) Deed Poll dated 12 April 2007 constituting the free detachable warrants executed by Salcon;
- (c) Joint Venture Agreement and Compensation Agreement both dated 6 June 2007 entered into between Linyi Salcon Water Co Ltd and Fu Yuan Dong Shareholding Co Ltd for the establishment of a proposed joint venture company ("JVC") to undertake development and operation of property in Linyi City, Shandong Province, the People Republic of China. The JVC shall have a registered capital of CNY120 million, 15% of which shall be contributed by Linyi Salcon Water Co Ltd in the form of land-use right of a property valued at CNY18 million and the balance 85% shall be contributed by Fu Yuan Dong Shareholding Co Ltd in the form of cash. In return for the vacating and the injection of the property into the JVC and the transferring of its shareholding in the JVC, the JVC shall pay a compensation sum of CNY30 million to Linyi Salcon Water Co, which shall be settled by way of development properties worth CNY10 million and the balance CNY20 million in cash subject to the fulfillment of terms and conditions therein;
- (d) Sale and Purchase Agreement dated 3 July 2007, Master Agreement dated 3 July 2007 and two Supplementary Agreements both dated 14 July 2007 all entered into between SEB as vendor and Blair's Finance Group Ltd as purchaser for the disposal of the following in favour of Blair's Finance Group Ltd or nominees:-
- (i) disposal of SEB's 1,225 ordinary shares of USD1.00 each in CCI, representing 49% of the entire issued and paid-up capital of CCI;
- (ii) waiver of all SEB's rights and interest in the 813,502 preference shares of INR100 each in Palm Tech;

- (iii) assignment of all SEB's advances to CCI amounting to USD1,013,647; and
- (iv) waiver of all SEB's advances to Palm Tech;

for a total cash consideration of RM24,000,000.

- (e) Sale and Purchase Agreement dated 3 August 2007 entered into between Amway (Malaysia) Sdn Bhd as vendor and Salcon Building Services Sdn Bhd as purchaser for the purchase of a piece of land held under H.S.(D) 175343 PT 34, Jalan 223, Section 20, Bandar Petaling Jaya, Daerah Petaling, Selangor measuring approximately 5,931.665 square meters together with a building erected thereon for a cash consideration of RM13,500,000.00 only; and
- (f) SSA dated 28 August 2007 between Salcon and Maika in relation to the Proposed Acquisition which is the subject matter of this Circular.

#### Oriental

There are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by Oriental within the two (2) years immediately preceding the date of this Circular.

#### 4. **Material Litigation**

##### Salcon

Save as disclosed below, neither Salcon nor its subsidiaries are engaged in any material litigation, claims and arbitration either as plaintiff or defendant, and the Directors of Salcon are not aware of any proceedings pending or threatened against Salcon and/or its subsidiaries or of any facts likely to give rise to any proceedings which may materially or adversely affect the financial position or business of the Company and/or its subsidiaries:

- (a) Kuala Lumpur High Court Suit No: D3-22-204-2006  
Between SEB and Zamani Bin Shamsuddin ("Zamani")

On 20 February 2006, SEB filed a suit against Zamani, the sole proprietor of Fatih Enterprise, for the recovery of sum of RM254,726.65, being money mistakenly paid by SEB to Zamani in relation to a sub-contract entered into between SEB and Fatih Enterprise.

On 8 March 2007, judgment in default of appearance was entered against Zamani. The sealed judgment is currently pending extraction from the Court.

- (b) Shah Alam Sessions Court Summons No. 1 -52-1419-2005  
Between Envitech Sdn Bhd ("Envitech") and Kulim Techno-City Sdn Bhd ("Kulim")

On 26 April 2005, Envitech, a subsidiary of SEB, filed a suit against Kulim for the recovery of a sum of RM206,410.00, being the outstanding certified payment for works done by Envitech under a construction contract for Kulim.

Kulim filed an application to transfer the matter to the Court in Kedah, which application was dismissed with costs on 25 May 2007. Envitech filed an application for summary judgment on 1 March 2006. On 20 July 2007, Kulim filed an application for leave to file affidavit-in-reply out of time, which is fixed for hearing on 14 December 2007. The application for summary judgment is fixed for mention on 14 December 2007.

The solicitors for Envitech are of the opinion that Envitech has a favourable case.

- (c) Shah Alam High Court Civil Suit No. MT1-22-530-2007  
Between Envitech and SPA Air Hitam Properties Sdn Bhd (“SAP”)

Envitech commenced a legal suit on 3 April 2007 against SAP for the recovery of a sum of RM370,564.00, being the outstanding certified payment for work done under a construction contract.

SAP entered into appearance on 17 May 2007 and filed the statement of defence on 31 May 2007 and no hearing date has been fixed by the Court. The parties are in the process of negotiation for settlement.

The solicitors for Envitech are of the opinion that Envitech has a favourable case.

- (d) Arbitration between SEB and Metropolitan Waterworks Authority, Thailand (“MWA”)

In this arbitration proceedings, SEB submitted a dispute petition dated 18 October 2006 claiming for extension of time, loss and expense claims and variation claims under a construction contract entered into between SEB and MWA. The total value of SEB’s claims is Thai Baht 49,752,126.06.

MWA submitted the Objection and Counter-Claim on 4 June 2007 claiming for the delay in the works and claiming for liquidated and ascertained damages amounting to Thai Baht 4,065,403.00. On the other hand, SEB has submitted the Objection to the Counter Claim to the Arbitration Tribunal on 21 August 2007.

On 27 September 2007, MWA’s representative submitted a petition to request Arbitrator Tribunal to dismiss the order which approved Salcon’s dispute petition and to make the preliminary decision on the case. SEB is allowed to submit its objection by 6 October 2007. An appointment has been fixed on 8 November 2007 to settle the matters of dispute and both parties were required to declare list of witnesses and documentary documents.

Upon taking advice from the solicitors for SEB, the directors are of view that the SEB has a fair chance of success in the claim.

- (e) Kuala Lumpur Industrial Court Case No. 19/4-1328/07  
Between Abdul Nasir Bin Adnan (“the Claimant”) and SEB

On 11 June 2007, a reference was made by the Minister of Human Resources to the Industrial Court in relation to a representation made by the Claimant, a former employee of SEB, under Section 20 of the Industrial Relations Act, 1967, contending that his retrenchment by SEB was without cause.

The matter recently came up for mention on 27 August 2007 and the Industrial Court directed the Claimant to file in his Statement of Case and Bundle of Documents on or before 27 September 2007. SEB in turn is to file in its Statement of Reply and Bundle of Documents on or before 26 October 2007. The matter has been fixed for mention on 12 November 2007.

The solicitors for SEB are not in the position to advice on the merit of the claim at this stage.

In the event that the Industrial Court decides against SEB, the compensation payable is estimated at around RM540,000.

#### Oriental

Save as disclosed below, neither Oriental nor its subsidiaries are engaged in any material litigation, claims and arbitration either as plaintiff or defendant, and the Directors of Oriental are not aware of any proceedings pending or threatened against Oriental and/or its subsidiaries or of any facts likely to give rise to any proceedings which may materially or adversely affect the financial position or business of the company and/or its subsidiaries:-



- (a) Kuala Lumpur High Court Suit No. S4-23-60-2007  
Between Multimedia Glory Sdn Bhd (“Multimedia Glory”) (the “Plaintiff”) and Suresh Kumar & Oriental (collectively the “Defendants”)

On 11 June 2007, Multimedia Glory filed a suit against Oriental and Suresh Kumar, its IT Manager. The said proceedings commenced on 11 June 2007 against the Defendants for alleged libel and malicious falsehood by the lodging of a police report by Suresh Kumar on behalf of Oriental on 1 August 2006 and the subsequent publication thereof. The said police report was lodged in connection with unauthorised intrusion into Oriental’s computer system on 1 August 2006. The Plaintiff is alleging that the said police report was lodged maliciously and is defamatory of the Plaintiff. The Plaintiff is seeking *inter alia*, unliquidated general, aggravated and/or exemplary damages. The Defendants have filed the statement of defence on 2 August 2007 and the reply to the statement of defence was served on Oriental on 11 September 2007 and no hearing date has been fixed by the Court. The solicitors for Oriental are unable to provide an estimate of maximum liabilities of Oriental as the Plaintiff is seeking unliquidated damages where the amount of damages, if any, would be assessed by the Court based on evidence adduced by the parties. However, the solicitors are of the view that the Defendants have a reasonably good chance of success in defending the said proceedings.

On the other hand, Oriental is in the process of filing legal proceedings against the Plaintiff in connection with the said unauthorised intrusion into Oriental’s computer system. Oriental will be seeking, *inter alia*, general and special damages for trespass, conversion and unlawful interference with trade. The solicitors are of the view that Oriental has a reasonably good chance of success in the intended legal proceedings.

#### 5. Documents available for inspection

Copies of the following documents are available for inspection at the registered office of the Company at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan, following the publication of this Circular from Monday to Friday (except Public Holidays) during business hours up to and including the date of the EGM:-

- (a) the Memorandum and Articles of Association of the Company and Oriental;
- (b) the audited financial reports of Salcon Group for the seventeen (17) months period ended 31 December 2005, the financial year ended 31 December 2006 and the unaudited financial statements for the six (6) months financial period ended 30 June 2007;
- (c) the audited financial statements of Oriental for the past two (2) financial years ended 31 December 2006 and the unaudited financial statements for the six (6) months financial period ended 30 June 2007; and
- (d) proforma consolidated balance sheets of Salcon as at 31 December 2006 and the Reporting Accountants’ Letter thereon;
- (e) the letters of consent as referred to in paragraph 2 above;
- (f) material contracts referred to in paragraph 3 above;
- (g) the relevant cause papers in respect of the material litigation referred to in paragraph 4 above; and
- (h) SSA.



**SALCON BERHAD**

(Company No: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of Salcon Berhad (“Salcon” or “the Company”) will be held at Bahamas 1, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 24 October 2007 at 10.30 a.m., for the purpose of considering and if thought fit, passing the following resolution, with or without modification:-

**ORDINARY RESOLUTION**

- (A) **PROPOSED ACQUISITION OF 74,174,592 ORDINARY SHARES OF RM1.00 EACH REPRESENTING 74.165% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF ORIENTAL CAPITAL ASSURANCE BERHAD (“ORIENTAL”) BY SALCON FROM MAIKA HOLDINGS BERHAD FOR RM1.75 PER SHARE OR A TOTAL CASH CONSIDERATION OF RM129,805,536 (“PROPOSED ACQUISITION”); AND**
- (B) **PROPOSED MANDATORY GENERAL OFFER BY SALCON FOR THE REMAINING ORDINARY SHARES OF RM1.00 EACH IN ORIENTAL WHICH ARE NOT ALREADY OWNED BY IT FOR A CASH CONSIDERATION OF RM1.75 FOR EACH SHARE, UPON THE CONDITIONAL SHARE SALE AGREEMENT DATED 28 AUGUST 2007 IN RELATION TO THE PROPOSED ACQUISITION BECOMING UNCONDITIONAL (“PROPOSED MANDATORY GENERAL OFFER”)**

**“THAT**, subject to the approval(s) being obtained from all relevant authorities, approval be and is hereby given for the Company to acquire 74,174,592 ordinary shares of RM1.00 each representing 74.165% of the issued and paid-up share capital of Oriental Capital Assurance Berhad (“Oriental”) from Maika Holdings Berhad (“Maika”) for a purchase consideration of RM129,805,536 to be wholly satisfied by cash and upon the terms and conditions as stated in the conditional Share Sale Agreement dated 28 August 2007 (“SSA”) entered into between the Company, being the purchaser, and Maika, being the vendor, pursuant to the Proposed Acquisition;

**THAT** the aforesaid SSA be and is hereby approved, affirmed and ratified;

**THAT** pursuant to the Proposed Acquisition, approval be and is also hereby given for the Company to undertake a mandatory take-over offer to the remaining shareholders of Oriental, to acquire the remaining ordinary shares of RM1.00 each in Oriental not already held by Salcon upon the SSA pursuant to the Proposed Acquisition becoming unconditional, in accordance with Section 6, Part II of the Malaysian Code on Take-Overs and Mergers, 1998;

**AND THAT** the Directors of the Company be and are hereby authorised to give full effect to and for the purpose of completing or implementing the Proposed Acquisition and Proposed Mandatory General Offer with full power to agree to any condition, variation, modification and/or amendment as may be required by the relevant authorities and to enter into on behalf of the Company all such agreements, arrangements, undertaking, indemnities, transfers, assignments and guarantees, as the case may be, with Maika and/or any other relevant party or parties, as may be required in order to implement, finalise, complete and give full effect to the Proposed Acquisition and/or Proposed Mandatory General Offer.”

**BY ORDER OF THE BOARD**

NG YEN HOONG (LS 008016)  
LIM POH YEN (MAICSA 7009475)  
Company Secretaries

Petaling Jaya  
5 October 2007

**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
3. In the case of a corporate body, the proxy appointed must be in accordance with its Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at the Company's Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.

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**SALCON BERHAD**

(Company No.: 593796-T)

(Incorporated in Malaysia under the Companies Act, 1965)

I/We.....  
(FULL NAME IN BLOCK LETTERS)

of.....  
(FULL ADDRESS)

being a member(s) of SALCON BERHAD hereby appoint .....  
.....  
(FULL NAME IN BLOCK LETTERS)

of .....

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the Extraordinary General Meeting of the Company to be held at Bahamas 1, Level 12, Sunway Resort Hotel & Spa, Persiaran Lagoon, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 24 October 2007 at 10.30 a.m. or any adjournment thereof.

RESOLUTION	*FOR	*AGAINST
ORDINARY RESOLUTION – PROPOSED ACQUISITION AND PROPOSED MANDATORY GENERAL OFFER		

\*Please indicate with (X) how you wish your vote to be cast. If no specific direction as to voting is given the proxy will vote or abstain at his discretion.

Dated this ..... day of ..... 2007

Number of shares held

.....  
Signature of Shareholder(s) or Common Seal

*Notes:*

- 1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.*
- 2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.*
- 3. In the case of a corporate body, the proxy appointed must be in accordance with its Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.*
- 4. The Form of Proxy must be deposited at the Company's Registered Office at 15th Floor, Menara Summit, Persiaran Kewajipan, USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan not less than 48 hours before the time set for the meeting or any adjournment thereof.*



Fold this flap for sealing

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AFFIX  
STAMP

THE COMPANY SECRETARY  
SALCON BERHAD  
15th Floor, Menara Summit  
Persiaran Kewajipan, USJ 1  
47600 UEP Subang Jaya  
Selangor Darul Ehsan

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