

# **Lonpac Insurance Bhd**

(Company No. 307414-T)

(Incorporated in Malaysia)

## **Financial statements for the year ended 31 December, 2004 together with Directors' and Auditors' reports**

Domiciled in Malaysia  
Registered office  
6<sup>th</sup> Floor, Bangunan Public Bank  
6, Jalan Sultan Sulaiman  
50000 Kuala Lumpur

# **Lonpac Insurance Bhd**

(Company No. 307414-T)

(Incorporated in Malaysia)

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# Lonpac Insurance Bhd

(Company No. 307414-T)

(Incorporated in Malaysia)

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER, 2004

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 31 December, 2004.

### PRINCIPAL ACTIVITY

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 this principal activity during the financial year.

### RESULTS

	<b>RM'000</b>
Net profit for the year	38,577 =====

### DIVIDENDS

The amount of dividend paid by the Company since the end of the previous financial year was as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December, 2004:	
Interim dividend of 50% less 28% taxation paid on 23/12/2004	36,000 =====

The Directors do not recommend any final dividend to be paid for the financial year under review.

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the Statement of Changes in Equity on page 13 of the financial statements.

## **PROVISION FOR OUTSTANDING CLAIMS**

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

## **BAD AND DOUBTFUL DEBTS**

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

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

## **CURRENT ASSETS**

Before the income statement and balance sheet were made out, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business, their value as shown in the accounting records of the Company have been written down to an amount which they might be expected to realise.

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

## **VALUATION METHODS**

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

## **CONTINGENT AND OTHER LIABILITIES**

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

- i) any charge on the assets of the Company which has arisen since the end of the financial year and which secures the liabilities of any other person; or
- ii) any contingent liability of the Company which has arisen since the end of the financial year.

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

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 Company.

## **CHANGE OF CIRCUMSTANCES**

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

## **ITEMS OF AN UNUSUAL NATURE**

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the year in which this report is made.

## **SHARE CAPITAL**

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

## **CORPORATE GOVERNANCE**

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia.

***Nominating, Remuneration and Risk Management Committee*****i. Membership and Meetings of the Committees**

The composition of the Committees and the meetings held during the financial year ended 31 December 2004 are as follows:

<b><u>Director</u></b>	<b>Nominating</b>	<b>Remuneration</b>	<b>Risk Management</b>
	← (Attendance/Number of Meetings) →		
Tan Sri Dato' Sri Dr. Teh Hong Piow <i>(Non-Independent Non-Executive Director)</i>	Member (7/7)	Member (2/2)	-
Dato' Yeoh Chin Kee <i>(Independent Non-Executive Director)</i>	Chairman (7/7)	Chairman (2/2)	Chairman (3/3)
Geh Cheng Hooi <i>(Independent Non-Executive Director)</i>	Member (6/7)	Member (2/2)	Member (3/3)
Lee Chin Guan <i>(Independent Non-Executive Director)</i>	Member (7/7)	Member (2/2)	Member (3/3)
Tee Choon Yeow <i>(Non-Independent Executive Director)</i>	Member (7/7)	-	-

**ii. Responsibilities of the Committees**

The duties and responsibilities of the Committees are as follows:

**Nominating Committee**

- (i) To establish the minimum requirements for the Board of Directors and the Chief Executive Officer to perform their responsibilities effectively.

To oversee the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required, through annual reviews.

- (ii) To assess and recommend the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the position of Chief Executive Officer. This would include assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval would be submitted to Bank Negara Malaysia.
- (iii) To establish a mechanism for formal assessment on the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer.
- (iv) To recommend to the Board on removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.
- (v) To ensure that all Directors undergo appropriate induction programmes and receive continuous training.
- (vi) To oversee appointment, management succession planning and performance evaluation of key senior officers and recommending to the Board the removal of key senior officers if they were ineffective, errant and negligent in discharging their responsibilities.

#### **Remuneration Committee**

- (i) To recommend a framework of remuneration for Directors, Chief Executive Officer and key senior officers.
- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers.

#### **Risk Management Committee**

- (i) To review and recommend risk management strategies, policies and risk tolerance for the Board of Directors' approval.
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.

- (iii) To ensure that adequate infrastructure, resources and systems are in place for effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.
- (iv) To review the management's periodic reports on the risk exposure, risk portfolio composition and risk management activities.
- (v) To perform any other functions in relation to risk management as may be agreed by the Risk Management Committee and the Board of Directors.

### **iii. Assessment by the Nominating Committee**

To assess and review the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer. The Committee would ensure that the fiduciary duties and responsibilities of the Directors, Chief Executive Officer and key senior officers are not compromised.

### **iv. Risk Management Framework**

The formalisation of the risk management framework was enhanced by the following initiatives:

- A Risk Management Committee was established to drive the risk management processes in identifying principal business risks and ensure the implementation of appropriate systems to manage these risks. The Risk Management Committee is supported by the Working Risk Management Committee.
- The Working Risk Management Committee, headed by the Chief Executive Officer, was established with the responsibility to identify and communicate to the Risk Management Committee on critical risks (present and potential) in terms of likelihood exposures and impact on the Company's business and the management action plans to manage these risks on a continuing basis.
- The consolidated risk profile of the Company and the risk management manual are in place.

## **OPTIONS GRANTED OVER UNISSUED SHARES**

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

## **DIRECTORS**

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

Tan Sri Dato' Sri Dr. Teh Hong Piow  
Dato' Yeoh Chin Kee  
Tee Choon Yeow  
Geh Cheng Hooi  
Lee Chin Guan  
Tan Kok Guan

In accordance with the Company's Articles of Association, Dato' Yeoh Chin Kee retires at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

Tan Sri Dato' Sri Dr. Teh Hong Piow and Mr. Geh Cheng Hooi retire pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offer themselves for re-appointment as Directors under the provision of Section 129(6) of the said Act to hold office until the next Annual General Meeting of the Company.

## **DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the option granted pursuant to the Employees' Share Option Scheme of the ultimate holding company.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 15 to the financial statements of the Company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than a Director who has significant financial interests in companies which traded with the Group in the ordinary course of business.

## **DIRECTORS' INTERESTS**

As the Company is a wholly-owned subsidiary of another corporation, the interests in the shares of the holding company of Tan Sri Dato' Sri Dr. Teh Hong Piow, Dato' Yeoh Chin Kee, Mr. Tee Choon Yeow, Mr. Lee Chin Guan and Mr. Tan Kok Guan, who are also Directors of the ultimate holding company, are shown in the Directors' report of the ultimate holding company.

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## **HOLDING AND ULTIMATE HOLDING COMPANY**

The Directors regard LPI Capital Bhd, a company incorporated in Malaysia, as the holding and ultimate holding company of the Company.

## **AUDITORS**

Messrs KPMG retire and have indicated their willingness to accept re-appointment.

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

Signed

**Dato' Yeoh Chin Kee**

Signed

**Tee Choon Yeow**

Kuala Lumpur,

Date: 14 January 2005

## **Lonpac Insurance Bhd**

(Company No. 307414-T)

(Incorporated in Malaysia)

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

We, Dato' Yeoh Chin Kee and Tee Choon Yeow, being two of the Directors of Lonpac Insurance Bhd, do hereby state that, in the opinion of the Directors, the financial statements of the Company set out on pages 12 to 43 are properly drawn up to give a true and fair view of the state of affairs of the Company as at 31 December, 2004 and of the results and cash flows for the financial year then ended, and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

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

Signed

**Dato' Yeoh Chin Kee**

Signed

**Tee Choon Yeow**

Kuala Lumpur,

Date: 14 January 2005

**Lonpac Insurance Bhd**

(Company No. 307414-T)

(Incorporated in Malaysia)

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

I, **TEE CHOON YEOW**, the Director primarily responsible for the financial management of Lonpac Insurance Bhd, do solemnly and sincerely declare that the financial statements set out on pages 12 to 43, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **TEE CHOON YEOW** in Kuala Lumpur on 14 January 2005.

Signed

**TEE CHOON YEOW**

Before me:

**S. NADARAJAH**  
Commissioner for Oath

**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
Wisma KPMG  
Jalan Dungun, Damansara Heights  
50490 Kuala Lumpur, Malaysia

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## **REPORT OF THE AUDITORS TO THE MEMBER OF LONPAC INSURANCE BHD**

(Company No. 307414-T)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 12 to 43. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - i) the state of affairs of the Company at 31 December, 2004 and of the results and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

Signed

**KPMG**

Firm Number: AF 0758  
Chartered Accountants

Signed

**Gnanachandran a/l S Ayadurai**

Partner

Approval Number: 1722/09/05(J)

Date: 14 January 2005

# Lonpac Insurance Bhd

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(Incorporated in Malaysia)

## BALANCE SHEET AS AT 31 DECEMBER, 2004

	Note	2004 RM'000	2003 RM'000
<b>ASSETS</b>			
Property and equipment	3	10,807	8,918
Investments	4	364,970	338,701
Loans (secured)	5	15,263	11,998
Receivables	6	49,024	52,761
Cash and bank balances		6,616	3,823
		<hr/>	<hr/>
<b>TOTAL GENERAL BUSINESS AND SHAREHOLDERS' FUND ASSETS</b>		446,680	416,201
		=====	=====
<b>LIABILITIES</b>			
Provision for outstanding claims	7	128,117	110,322
Payables	8	34,057	42,570
Provision for taxation		3,905	1,732
		<hr/>	<hr/>
<b>Total general business and shareholders' fund liabilities</b>		166,079	154,624
		-----	-----
<b>Unearned premium reserves</b>	9	109,059	93,446
		-----	-----
<b>SHAREHOLDERS' FUND</b>			
Share capital	10	100,000	100,000
Reserves		71,542	68,131
		<hr/>	<hr/>
<b>Total shareholders' fund</b>		171,542	168,131
		-----	-----
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUND</b>		446,680	416,201
		=====	=====

The notes set out on pages 19 to 43 form an integral part of, and should be read in conjunction with, these financial statements.

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## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2004

	Note	<i>Non-Distributable</i>		<i>Distributable</i>	
		Share capital RM'000	Foreign exchange reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January, 2003		100,000	(392)	60,945	160,553
Currency translation differences		-	267	-	267
Net gains not recognised in the income statement		-	267	-	267
Net profit for the year		-	-	28,911	28,911
Dividends	11	-	-	(21,600)	(21,600)
At 31 December, 2003		100,000	(125)	68,256	168,131
Currency translation differences		-	834	-	834
Net gains not recognised in the income statement		-	834	-	834
Net profit for the year		-	-	38,577	38,577
Dividends	11	-	-	(36,000)	(36,000)
At 31 December, 2004		100,000	709	70,833	171,542
		=====			
		Note 10			

The foreign exchange reserve is in respect of exchange differences arising from the translation of the Singapore branch's financial statements.

The notes set out on pages 19 to 43 form an integral part of, and should be read in conjunction with, these financial statements.

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## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2004

	Note	2004 RM'000	2003 RM'000
<b>Operating Revenue</b>	12	352,236 =====	334,205 =====
Shareholders' fund:			
Investment income	13	534	588
		----- 534	----- 588
Transfer from General Insurance Revenue Account		53,457	36,491
		----- 53,991	----- 37,079
<b>Profit before taxation</b>		53,991	37,079
Taxation	17	(15,414)	(8,168)
		----- 38,577	----- 28,911
<b>Net profit for the year</b>		38,577 =====	28,911 =====
Earnings per share (sen)			
- Basic	18	39	29
		----- 39	----- 29

The notes set out on pages 19 to 43 form an integral part of, and should be read in conjunction with, these financial statements.

# Lonpac Insurance Bhd

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## GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2004

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Gross premium		100,447	86,989	76,733	76,598	11,772	12,472	139,782	145,107	328,734	321,166
Less: Reinsurance		(40,450)	(40,588)	(11,005)	(13,895)	(6,482)	(7,634)	(77,872)	(94,345)	(135,809)	(156,462)
Net premium		59,997	46,401	65,728	62,703	5,290	4,838	61,910	50,762	192,925	164,704
Increase in unearned premium reserves	9	(7,714)	(2,505)	(1,576)	(566)	(156)	(361)	(5,717)	(7,275)	(15,163)	(10,707)
Earned premium		52,283	43,896	64,152	62,137	5,134	4,477	56,193	43,487	177,762	153,997
Net claims incurred	19	(12,518)	(8,580)	(51,018)	(49,589)	(2,441)	(1,657)	(30,569)	(25,283)	(96,546)	(85,109)
Net commission		(7,223)	(5,080)	(5,989)	(6,250)	(201)	(297)	1,083	(931)	(12,330)	(12,558)
		(19,741)	(13,660)	(57,007)	(55,839)	(2,642)	(1,954)	(29,486)	(26,214)	(108,876)	(97,667)
Underwriting surplus before management expenses		32,542	30,236	7,145	6,298	2,492	2,523	26,707	17,273	68,886	56,330
Management expenses	15									(40,765)	(35,118)
Underwriting surplus										28,121	21,212

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## GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2004

(continued)

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Underwriting surplus										28,121	21,212
Investment income	13									22,968	12,451
Other operating income/ (expenses)-net	14									2,368	2,828
Transfer to income statement										53,457	36,491

The notes set out on pages 19 to 43 form an integral part of, and should be read in conjunction with, these financial statements.

# Lonpac Insurance Bhd

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## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2004

	2004 RM'000	2003 RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	53,991	37,079
Adjustments for:		
Depreciation	2,610	1,928
(Gain)/Loss on disposal of property and equipment	(162)	5
Property and equipment written off	20	-
Loss on disposal of investments	7	25
Increase in unearned premium reserves	15,163	10,707
Interest paid on reinsurers' deposits	10	31
Investment income	(23,502)	(13,039)
Provision for outstanding claims	17,253	14,274
Writeback for diminution in value of investment	(171)	(274)
	-----	-----
Profit from operations before changes in operating assets and liabilities	65,219	50,736
Decrease/(Increase) in due premiums including agents/brokers and co-insurers balances and amount due from reinsurers and cedants	11,421	(11,513)
Increase in other receivables, deposits and prepayments and income due and accrued	(7,684)	(236)
Increase in staff loans	(3,265)	(1,967)
Increase in other payables and accrued expenses	268	1,005
(Decrease)/Increase in amount due to reinsurers, cedants, agents/brokers, co-insurers and insureds	(8,781)	4,701
Increase in fixed deposits	(17,310)	(19,352)
Purchase of Malaysian and Singapore Government Securities	(19,269)	(11,655)
Purchase of unquoted debentures, bonds, unit trust and loan stocks	(10,103)	(10,758)
Purchase of other investments	(2,080)	(1,093)
Proceeds from maturity of Malaysian Government Securities	-	18,548
Proceeds from disposal of investment	8	-
Proceeds from unquoted debentures, bonds, unit trust and loan stocks	22,660	5,503
	-----	-----
	31,084	23,919
Tax paid	(13,241)	(9,913)
Interest paid on reinsurers' deposits	(10)	(31)
Investment income received		
- Dividend	12,838	3,127
- Interest	10,830	9,495
- Others	246	102
	-----	-----
<b>Net cash generated from operating activities</b>	41,747	26,699
	-----	-----

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## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2004

(continued)

	2004 RM'000	2003 RM'000
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of property and equipment	162	10
Purchase of property and equipment	(4,362)	(3,307)
Amortisation of premiums in respect of Malaysian and Singapore Government Securities	586	495
Amortisation of premium in respect of Malaysian Government Guaranteed Loan	28	27
Amortisation of premium in respect of Cagamas bonds	3	-
Accretion of discounts on unquoted bonds	(205)	(837)
	(3,788)	(3,612)
	-----	-----
<b>CASH FLOW FROM FINANCING ACTIVITY</b>		
Dividend paid to holding company	(36,000)	(21,600)
	(36,000)	(21,600)
	-----	-----
Net increase in cash and cash equivalents	1,959	1,487
Cash and cash equivalents at beginning of year	3,823	2,069
Effects of exchange rate changes	834	267
	6,616	3,823
	=====	=====
Cash and cash equivalents comprise:		
Cash and bank balances	6,616	3,823
	=====	=====

The notes set out on pages 19 to 43 form an integral part of, and should be read in conjunction with, these financial statements.

# **Lonpac Insurance Bhd**

(Company No. 307414-T)

(Incorporated in Malaysia)

## **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER, 2004**

### **1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION**

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

The number of employees of the Company as at the end of the financial year was 370 (2003 - 345).

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The principal place of business of the Company is located at:

LG, 6<sup>th</sup>, 7<sup>th</sup>, 21<sup>st</sup> – 25<sup>th</sup> Floor, Bangunan Public Bank  
6, Jalan Sultan Sulaiman  
50000 Kuala Lumpur

The holding and ultimate holding company is LPI Capital Bhd, a company incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 14 January 2005.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted by the Company are consistent with those adopted in previous years.

#### **(a) Basis of Accounting**

The financial statements of the Company have been prepared on the historical cost basis and in compliance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act and Regulations, 1996 and Guidelines/Circulars issued by Bank Negara Malaysia.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

On disposal of property and equipment, the difference between net proceeds and the carrying amount is recognised in the revenue account.

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

The straight-line method is used to write off the cost of the assets over the term of their estimated useful lives at the following principal annual rates:

Long leasehold office premises	2%
Office equipment	25%
Furniture and fittings	25%
Renovation	20%
Computers	25%
Motor vehicles	20%

### (c) Investments

Malaysian and Singapore Government Securities, Government Guaranteed Loan, unquoted bonds and other investments as specified by Bank Negara Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts calculated on a constant yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the revenue account.

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

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

Unquoted equity investments are stated at cost. A provision is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

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

### **(d) Investment Property**

Investment property is stated at cost and includes related and incidental expenditure incurred. Investment property is not depreciated.

On disposal of an investment property, the difference between the net proceed and the carrying amount is recognised in the revenue account.

The carrying amount of investment property is reduced to recognise impairment loss.

### **(e) Impairment of Assets**

The carrying value of assets other than deferred tax assets and financial assets, are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying value of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit to which the amount belongs. An impairment loss is charged to the revenue account.

Subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the revenue account.

### **(f) Receivables**

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

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

### **(g) General Insurance Underwriting Results**

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) General Insurance Underwriting Results (continued)

#### *Premium income*

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

#### **Unearned Premium Reserves**

The Unearned Premium Reserves (UPR) represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

In determining the UPR at balance sheet date, the method that most accurately reflects the actual unearned premium is used and is as follows:

#### *Annual policies*

- (i) 25% method for marine cargo, aviation cargo and transit business.
- (ii) 1/24<sup>th</sup> method for all other classes of Malaysian general policies business.
- (iii) 1/24<sup>th</sup> method for all other classes of overseas inward business.

#### *Non annual policies*

Premium are apportioned evenly over the period the policy is on risk.

#### **Provision for Claims**

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

Provision is also made for the cost of claims, together with related expenses incurred but not reported at balance sheet date, using a mathematical method of estimation.

#### **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 (continued)

### (h) Other Revenue Recognition

Interest income on loans and other interest-bearing investments are recognised on an accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six (6) months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six (6) months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

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

### (i) Currency Conversion and Translation

#### (i) *Foreign currency transactions*

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

#### (ii) *Financial statements of Singapore branch*

The assets and liabilities of the Singapore branch are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of the branch are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of the above branch is as follows:

SGD1.00      RM2.28      (2003 - RM2.20)

### (j) Liabilities

Trade and other payables are stated at cost.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Income Tax

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

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

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

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

### (l) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks but excludes fixed and call deposits.

### (m) Employee Benefits

#### *(i) Short term employee benefits*

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

#### *(ii) Defined contribution plans*

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

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### 3. PROPERTY AND EQUIPMENT

<i>Cost</i>	Long leasehold office premises RM'000	Office equipment RM'000	Furniture and fittings RM'000	Renovation RM'000	Computers RM'000	Motor vehicles RM'000	Total RM'000
At 1 January, 2004	4,486	643	2,220	2,188	8,126	2,620	20,283
Additions	-	181	307	421	2,453	1,000	4,362
Disposals	-	(35)	(21)	-	(14)	(385)	(455)
Written off	-	(7)	(31)	(22)	(218)	-	(278)
Exchange differences	163	3	11	18	21	10	226
At 31 December, 2004	4,649	785	2,486	2,605	10,368	3,245	24,138
<b><i>Accumulated depreciation</i></b>							
At 1 January, 2004	1,079	467	1,422	1,251	5,975	1,171	11,365
Charge for the year	93	94	335	379	1,213	496	2,610
Disposals	-	(35)	(21)	-	(14)	(385)	(455)
Written off	-	(7)	(30)	(4)	(217)	-	(258)
Exchange differences	40	2	4	2	17	4	69
At 31 December, 2004	1,212	521	1,710	1,628	6,974	1,286	13,331
<b><i>Net book value</i></b>							
At 31 December, 2004	3,437	264	776	977	3,394	1,959	10,807
At 31 December, 2003	3,407	176	798	937	2,151	1,449	8,918
Depreciation charge for the year ended 31 December, 2003	90	58	269	215	796	500	1,928

### 3. PROPERTY AND EQUIPMENT (continued)

Included in property and equipment of the General business and shareholders' fund are the following fully depreciated assets which are still in use:

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
At cost:		
Office equipment	336	362
Furniture and fittings	1,060	908
Renovations	893	863
Computers	4,664	3,724
Motor vehicles	216	210
	=====	=====

### 4. INVESTMENTS

	<b>2004</b>		<b>2003</b>	
	<b>Cost/ Valuation</b>	<b>Market Value</b>	<b>Cost/ Valuation</b>	<b>Market Value</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Investment property, at cost				
Freehold land and building	400		400	
	-----		-----	
Malaysian Government Securities	36,974		21,209	
Amortisation of premiums	(1,138)		(577)	
	-----		-----	
	35,836	37,047	20,632	20,980
	-----	-----	-----	-----
Malaysian Government Guaranteed Loan	10,136		10,136	
Amortisation of premiums	(82)		(54)	
	-----		-----	
	10,054	10,075	10,082	9,799
	-----	-----	-----	-----
Singapore Government Securities	6,171		2,574	
Amortisation of premiums	(97)		(68)	
	-----		-----	
	6,074	6,361	2,506	2,556
	-----	-----	-----	-----
Quoted:				
Equity securities in corporations				
In Malaysia	53,759	136,886	51,679	107,336
Outside Malaysia	1,838	1,684	1,784	1,583
	-----	-----	-----	-----
	55,597	138,570	53,463	108,919
Provision for diminution in value	(154)	-	(430)	-
	-----	-----	-----	-----
	55,443	138,570	53,033	108,919
	-----	-----	-----	-----

**4. INVESTMENTS (continued)**

	<b>2004</b>		<b>2003</b>	
	<b>Cost/ Valuation RM'000</b>	<b>Market Value RM'000</b>	<b>Cost/ Valuation RM'000</b>	<b>Market Value RM'000</b>
Unquoted:				
Equity securities in corporations				
In Malaysia	235		235	
Outside Malaysia	56		54	
	-----		-----	
	291		289	
Provision for diminution in value	(56)		(54)	
	-----		-----	
	235		235	
	-----		-----	
Debentures, bonds, unit trust and loan stocks	25,132		38,754	
Provision for diminution in value	(113)		-	
Accretion of discounts	218		3,632	
	-----		-----	
	25,237		42,386	
	-----		-----	
Cagamas bonds	5,007		-	
Amortisation of premiums	(3)		-	
	-----		-----	
	5,004		-	
	-----		-----	
Fixed deposits with:				
- Licensed banks in Malaysia	150,364		141,366	
- Banks outside Malaysia	30,623		19,561	
- Licensed finance companies	45,700		48,500	
	-----		-----	
	226,687		209,427	
	-----		-----	
Total investments	364,970		338,701	
	=====		=====	
Investments maturing after 12 months	76,049		49,866	
	=====		=====	

Included in fixed deposits with banks outside Malaysia are deposits amounting to RM1,140,000 (SGD500,000) (2003 - RM1,100,000 (SGD500,000)) lodged with the Monetary Authority of Singapore as a statutory deposit under Section 14 of the Singapore Insurance Act, Chapter 142.

Included in investments in shares of corporations quoted in Malaysia is investment in Public Bank Berhad shares costing RM50,269,000 (2003 - RM50,269,000).

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## 5. LOANS (SECURED)

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Staff loans:		
Receivable within twelve months	1,473	1,289
Receivable after twelve months	13,790	10,709
	<u>15,263</u>	<u>11,998</u>
	=====	=====

Included in staff loans is housing loan to Directors amounting to RM187,000 (2003 - RM245,000).

## 6. RECEIVABLES

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Trade receivables:		
Due premiums including agents/brokers and co-insurers balances	34,311	38,940
Due from reinsurers and cedants	3,785	11,160
Less: Allowance for doubtful debts	(2,780)	(3,363)
	<u>35,316</u>	<u>46,737</u>
	-----	-----
Other receivables:		
Other receivables, deposits and prepayments	10,323	3,383
Income due and accrued	3,385	2,641
	<u>13,708</u>	<u>6,024</u>
	-----	-----
	<u>49,024</u>	<u>52,761</u>
	=====	=====

## 7. PROVISION FOR OUTSTANDING CLAIMS

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Provision for outstanding claims	171,230	180,273
Less: Recoverable from reinsurers	(43,113)	(69,951)
	<u>128,117</u>	<u>110,322</u>
	=====	=====

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## 8. PAYABLES

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Trade payables:		
Due to reinsurers and cedants	24,928	32,176
Due to agents/brokers, co-insurers and insureds	2,120	3,653
	<hr/>	<hr/>
	27,048	35,829
Other payables:		
Other payables and accrued expenses	7,009	6,741
	<hr/>	<hr/>
	34,057	42,570
	=====	=====

## 9. UNEARNED PREMIUM RESERVES

	<b>Fire</b>	<b>Motor</b>	<b>Marine, Aviation &amp; Transit</b>	<b>Miscellaneous</b>	<b>Total</b>
<b>2004</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	21,993	32,419	1,682	37,352	93,446
Increase in unearned premium reserves	7,714	1,576	156	5,717	15,163
Movement taken up in foreign exchange reserves	14	125	5	306	450
	<hr/>				
At 31 December	29,721	34,120	1,843	43,375	109,059
	<hr/> <hr/>				
<b>2003</b>					
At 1 January	19,484	31,808	1,320	29,974	82,586
Increase in unearned premium reserves	2,505	566	361	7,275	10,707
Movement taken up in foreign exchange reserves	4	45	1	103	153
	<hr/>				
At 31 December	21,993	32,419	1,682	37,352	93,446
	<hr/> <hr/>				

**10. SHARE CAPITAL**

	2004		2003	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Authorised:				
Ordinary shares of RM1.00 each	100,000	100,000	100,000	100,000
	=====	=====	=====	=====
Issued and fully paid:				
Ordinary shares of RM1.00 each	100,000	100,000	100,000	100,000
	=====	=====	=====	=====

**11. DIVIDENDS**

	Amount		Net Dividend per share	
	2004 RM'000	2003 RM'000	2004 sen	2003 sen
Ordinary dividend				
Interim:				
50% (2003 – 30%) less 28% taxation	36,000	21,600	36.0	21.6
	=====	=====	=====	=====

**12. OPERATING REVENUE**

	Shareholders' fund RM'000	General business RM'000	Total RM'000
<b>2004</b>			
Gross premium	-	328,734	328,734
Investment income (Note 13)	534	22,968	23,502
	-----	-----	-----
	534	351,702	352,236
	=====	=====	=====
<b>2003</b>			
Gross premium	-	321,166	321,166
Investment income (Note 13)	588	12,451	13,039
	-----	-----	-----
	588	333,617	334,205
	=====	=====	=====

**13. INVESTMENT INCOME**

<b>2004</b>	<b>Shareholders' fund RM'000</b>	<b>General business RM'000</b>	<b>Total RM'000</b>
Gross dividends			
- quoted shares in Malaysia	-	12,726	12,726
- quoted shares outside Malaysia	-	77	77
- unquoted shares in Malaysia	-	35	35
Interest income			
- Malaysian Government Securities	-	1,946	1,946
- Malaysian Government Guaranteed Loan	-	399	399
- Cagamas Bond	-	178	178
- Singapore Government Securities	-	192	192
- Debentures/Bonds/Loan Stocks (unquoted)	-	1,214	1,214
- Fixed and call deposits	534	6,367	6,901
Rental of properties	-	246	246
Accretion of discounts, net of amortisation of premiums	-	(412)	(412)
	<hr/>	<hr/>	<hr/>
	534	22,968	23,502
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>2003</b>			
Gross dividends			
- quoted shares in Malaysia	-	2,998	2,998
- quoted shares outside Malaysia	-	94	94
- unquoted shares in Malaysia	-	35	35
Interest income			
- Malaysian Government Securities	-	1,673	1,673
- Malaysian Government Guaranteed Loan	-	402	402
- Singapore Government Securities	-	84	84
- Debentures/Bonds/Loan Stocks (unquoted)	-	1,155	1,155
- Fixed and call deposits	588	5,593	6,181
Rental of properties	-	102	102
Accretion of discounts, net of amortisation of premiums	-	315	315
	<hr/>	<hr/>	<hr/>
	588	12,451	13,039
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**14. OTHER OPERATING INCOME/(EXPENSES) - NET**

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Loss on disposal of investments	(7)	(25)
Gain/(Loss) on disposal of property and equipment	162	(5)
Interest on staff car loans	146	135
Interest on staff housing loans	310	219
Interest received on inward treaties	3	3
Writeback for diminution in value of investment	171	274
Sundry income	1,583	2,227
	<u>2,368</u>	<u>2,828</u>
	=====	=====

**15. MANAGEMENT EXPENSES**

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Staff salary and bonus	19,913	17,296
Directors' remuneration (Note 16):		
- emoluments	1,029	911
- contribution to a provident fund	115	101
	<u>21,057</u>	<u>18,308</u>
Auditors' remuneration		
- audit fees	159	143
- underprovision in prior year	-	15
Bad and doubtful debts	(594)	275
Depreciation	2,610	1,928
Directors' fees (Note 16)	430	372
Property and equipment written off	20	-
Rental expense on office premises	2,423	1,936
Interest paid on reinsurers' deposits	10	31
IGSF levies	411	334
Other expenses	14,239	11,776
	<u>40,765</u>	<u>35,118</u>
	=====	=====

Staff salary and bonus include contributions to Employee Provident Fund of RM1,981,000 (2003 – RM1,829,000)

## 16. DIRECTORS' AND CEO'S REMUNERATION

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Executive Directors		
- Fees	80	72
- Salaries	589	528
- Bonuses	368	311
- Benefit-in-kind	57	56
- Other Remuneration	115	101
	-----	-----
	1,209	1,068
	-----	-----
Non-Executive Directors		
- Fees	350	300
- Benefit-in-kind	32	31
- Other Remuneration	72	72
	-----	-----
	454	403
	-----	-----
Total Directors' Remuneration	1,663	1,471
	=====	=====

The estimated monetary value of Directors' benefits-in-kind is RM88,913 (2003 - RM87,900).

The remuneration, including benefits-in-kind, attributable to the CEO of the Company during the year amounted to RM 796,715 (2003: RM 696,166).

The number of Directors of the Company whose total remuneration for the financial year which fall within the required disclosure bands is as follows:

	<b>Number of Directors</b>	
	<b>2004</b>	<b>2003</b>
Executive Directors		
RM50,001 – RM350,000	-	-
RM350,001 – RM400,000	-	1
RM400,001 – RM450,000	1	-
RM450,001 – RM650,000	-	-
RM650,001 – RM700,000	-	1
RM700,001 – RM750,000	-	-
RM750,001 – RM800,000	1	-
Non-Executive Directors		
RM50,001 – RM100,000	3	3
RM100,001 – RM150,000	-	-
RM150,001 – RM200,000	1	1

## 17. TAXATION

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Current year's provision:		
Malaysian taxation - current	15,455	10,270
- prior years	(77)	(2,123)
Overseas taxation - current	36	21
	<u>15,414</u>	<u>8,168</u>
	=====	=====
<b>Reconciliation of effective tax expense</b>		
Profit before taxation	53,991	37,079
	<u>53,991</u>	<u>37,079</u>
Income tax using Malaysian tax rates	15,117	10,382
Effect of different tax rates for offshore business	(293)	(744)
Non-deductible expenses	972	1,280
Tax exempt income	-	(9)
Effect of deductible temporary differences not recognised	(347)	(680)
Other items	42	62
	<u>15,491</u>	<u>10,291</u>
Overprovision in prior years	(77)	(2,123)
	<u>15,414</u>	<u>8,168</u>
	=====	=====

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank approximately RM33,151,000 of its distributable retained profits at 31 December 2004, if paid out as dividends.

## 18. EARNINGS PER SHARE

Earnings per share is calculated based on the net profit for the year of RM38,577,000 (2003 - RM28,911,000) divided by the number of ordinary shares in issue of 100,000,000 (2003 - 100,000,000) during the year.

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## 19. NET CLAIMS INCURRED

		<b>Fire</b>	<b>Motor</b>	<b>Marine, Aviation &amp; Transit</b>	<b>Miscellaneous</b>	<b>Total</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2004</b>						
Gross claims paid less salvage		20,499	49,826	11,764	40,318	122,407
Reinsurance recoveries		(9,013)	(8,785)	(9,698)	(15,617)	(43,113)
Net claims paid	(a)	11,486	41,041	2,066	24,701	79,294
Net outstanding claims:						
At 31 December	(b)	9,035	76,967	2,677	39,438	128,117
At 1 January	(c)	7,995	66,851	2,298	33,178	110,322
Exchange difference taken up in foreign exchange reserve	(d)	8	139	4	392	543
Net claims incurred	(a+b-c-d)	12,518	51,018	2,441	30,569	96,546
<b>2003</b>						
Gross claims paid less salvage		15,083	50,430	6,758	68,515	140,786
Reinsurance recoveries		(7,438)	(9,167)	(5,176)	(48,170)	(69,951)
Net claims paid	(a)	7,645	41,263	1,582	20,345	70,835
Net outstanding claims:						
At 31 December	(b)	7,995	66,851	2,298	33,178	110,322
At 1 January	(c)	7,059	58,480	2,215	28,090	95,844
Exchange difference taken up in foreign exchange reserve	(d)	1	45	8	150	204
Net claims incurred	(a+b-c-d)	8,580	49,589	1,657	25,283	85,109

**20. SEGMENT INFORMATION ON CASH FLOW**

<b>2004</b>	<b>General business RM'000</b>	<b>Shareholders' fund RM'000</b>	<b>Total RM'000</b>
Cash flow from:			
Operating activities	5,747	36,000	41,747
Investing activities	(3,788)	-	(3,788)
Financing activities	-	(36,000)	(36,000)
	<hr/>	<hr/>	<hr/>
	1,959	-	1,959
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,959	-	1,959
Cash and cash equivalents:			
At 1 January	3,765	58	3,823
Effect of foreign exchange differences	834	-	834
	<hr/>	<hr/>	<hr/>
At 31 December	6,558	58	6,616
	<hr/>	<hr/>	<hr/>
<b>2003</b>			
Cash flow from:			
Operating activities	5,099	21,600	26,699
Investing activities	(3,612)	-	(3,612)
Financing activities	-	(21,600)	(21,600)
	<hr/>	<hr/>	<hr/>
	1,487	-	1,487
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,487	-	1,487
Cash and cash equivalents:			
At 1 January	2,011	58	2,069
Effect of foreign exchange differences	267	-	267
	<hr/>	<hr/>	<hr/>
At 31 December	3,765	58	3,823
	<hr/>	<hr/>	<hr/>

## **21. FINANCIAL INSTRUMENTS**

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

Exposure to underwriting, credit, interest rate, currency and liquidity risks arises in the normal course of the Company's business. The Company is guided by risk management policies and guidelines which set out the overall business strategies and the general risk management philosophy. The Company has established processes to monitor the risks on an ongoing basis.

### **Underwriting risk**

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioral patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected. The Company seeks to minimise underwriting risks with a balanced mix and spread of business between classes of business and by observing underwriting guidelines and limits, conservative estimation of the claims provisions, and high standards applied to the security of reinsurers.

### **Credit risk**

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions failed to perform as contracted.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Company are represented by the carrying amount of each financial asset.

### **Interest rate risk**

The Company's earnings are affected by changes in market interest rates due to the impact such changes have on interest income from cash and cash equivalents and investments. Strict investment guidelines are used to monitor the risks in the Company's investments, including careful selection of issuers and a geographical spread of investment.

## **21. FINANCIAL INSTRUMENTS (continued)**

### **Foreign currency risk**

The Company incurs foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia and also the translation of the financial statements of the Singapore branch to Ringgit Malaysia. Exposures to foreign currency risks are monitored on an ongoing basis.

The Company does not hedge its foreign currency risk.

### **Liquidity risk**

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

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## 21. FINANCIAL INSTRUMENTS (continued)

The following table shows information about the Company's exposure to interest rate risk.

### *Effective interest rates and repricing analysis*

In respect of interest-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier. There are no interest-bearing financial liabilities.

	← 2004 →					← 2003 →				
	Effective interest rate %	Total RM'000	Within 1 year RM'000	1-5 years RM'000	After 5 years RM'000	Effective interest rate %	Within Total RM'000	1-5 1 year RM'000	After years RM'000	5 years RM'000
<b>Financial assets</b>										
<b>Malaysian branch</b>										
Debt securities held to maturity:										
Malaysian Government Securities	6.6	35,836	-	35,836	-	7.2	20,632	-	12,196	8,436
Malaysian Government Guaranteed Loan	3.7	10,054	-	10,054	-	3.7	10,082	-	10,082	-
Debentures, bonds and loan stocks										
- Unquoted	7.7	15,432	-	6,000	9,432	7.1	33,440	23,440	5,000	5,000
Cagamas bonds	3.7	5,004	-	5,004	-	-	-	-	-	-
Fixed and call deposits	3.0	196,064	196,064	-	-	3.1	189,866	189,866	-	-
Staff loans	3.3	14,483	1,277	5,958	7,248	3.3	11,199	1,111	4,786	5,302
<b>Singapore branch</b>										
Debt securities held to maturity:										
Singapore Government Securities	4.1	6,074	227	3,572	2,275	4.6	2,506	-	1,412	1,094
Debentures, bonds, unit trust and loan stocks										
- Unquoted	3.3	9,805	925	3,494	5,386	3.3	8,946	2,300	4,886	1,760
Fixed and call deposits	0.8	30,623	30,623	-	-	0.6	19,561	19,561	-	-
Staff loans	1.5	780	196	354	230	1.5	799	178	392	229

## 21. FINANCIAL INSTRUMENTS (continued)

### Fair values

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

<b>Financial assets</b>	<b>2004 Carrying amount RM'000</b>	<b>2004 Fair value RM'000</b>	<b>2003 Carrying amount RM'000</b>	<b>2003 Fair value RM'000</b>
<b>Malaysia Branch</b>				
Malaysian Government Securities	35,836	37,047	20,632	20,980
Malaysian Government Guaranteed Loan	10,054	10,075	10,082	9,799
Equity securities in corporations				
- Quoted	53,759	136,886	51,450	107,336
Debentures, bonds and loan stocks				
- Unquoted	15,432	16,228	33,440	33,583
Cagamas bonds	5,004	5,048	-	-
Staff loans	14,483	14,483	11,199	11,199
	134,568	219,767	126,803	182,897
<b>Singapore Branch</b>				
Singapore Government Securities	6,074	6,361	2,506	2,556
Equities securities in corporations				
- Quoted	1,684	1,684	1,583	1,583
Debentures, bonds, unit trust and loan stocks - Unquoted	9,805	9,919	8,946	9,083
Staff loans	780	780	799	799
	18,343	18,744	13,834	14,021
	152,911	238,511	140,637	196,918

## 21. FINANCIAL INSTRUMENTS (continued)

The fair value of quoted securities is their quoted bid price at the balance sheet date. For other financial instruments listed above, fair values are indicative prices at the balance sheet date. In respect of cash and cash equivalents, fixed and call deposits, receivables and payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

The fair value of the staff loans is to be the same as the carrying amount as it is immaterial in the context of the financial statements.

It is not practicable within constraints of time and cost to estimate the fair value of unquoted securities in corporations. The Company's investment in unquoted securities in corporations are insignificant in the context of the financial statements.

## 22. SIGNIFICANT RELATED PARTY DISCLOSURES

Controlling related party relationships are as follows:

- i) The holding and ultimate holding company as disclosed in Note 1.
- ii) The substantial shareholder of the Company, Tan Sri Dato' Sri Dr. Teh Hong Piow, through his direct and indirect shareholdings in LPI Capital Bhd.

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

	2004 RM'000	2003 RM'000
<b>Transactions</b>		
With companies in which Tan Sri Dato' Sri Dr. Teh Hong Piow, a Director, has substantial interests:		
Public Holdings Sdn. Bhd.		
- Rental paid	(1,545)	(1,352)
- Premium income generated from assets insured with the Company	641	598
Public Bank Berhad		
- Rental paid	(12)	(12)
- Commission incurred for insurance business introduced	(11,579)	(5,547)
- Premium income generated from assets insured with the Company	13,724	11,564
- Dividend income	12,594	2,925
- Fixed deposits income	1,046	865

## 22. SIGNIFICANT RELATED PARTY DISCLOSURES (continued)

	2004	2003
	RM'000	RM'000
Public Finance Berhad		
- Commission incurred for insurance business introduced	-	(4,283)
- Premium income generated from assets insured with the Company	-	1,114
- Fixed deposits income	-	487
PB International Factors Sdn. Bhd.		
- Commission incurred for insurance business introduced	(8)	(14)
- Premium income generated from assets insured with the Company	11	8
PB Securities Sdn. Bhd.		
- Stockbroking commission paid for equity investment	(6)	-
- Premium income generated from assets insured with the Company	34	96
Public Mutual Berhad		
- Premium income generated from assets insured with the Company	836	69
PB Properties Sdn. Bhd.		
- Premium income generated from assets insured with the Company	60	47
Public Merchant Bank Berhad		
- Premium income generated from assets insured with the Company	72	51
- Fixed deposits income	22	-
Public Leasing & Factoring Sdn. Bhd.		
- Commission incurred for insurance business introduced	(75)	(153)
- Premium income generated from assets insured with the Company	3	9
	=====	=====

These transactions have been entered into in the normal course of business at commercial terms.

## 22. SIGNIFICANT RELATED PARTY DISCLOSURES (continued)

In addition, the Company has investments with companies in which Tan Sri Dato' Sri Dr. Teh Hong Piow, a Director, has substantial interests and the balances of the investments placed and cash and bank balances at the end of the financial year are as follows:

	<b>2004</b>	<b>2003</b>
	<b>RM'000</b>	<b>RM'000</b>
Public Bank Berhad		
<u>Insurance fund</u>		
Fixed deposits	10,507	24,686
Quoted shares	50,269	50,269
Cash and bank balances	2,856	1,530
<u>Non-insurance fund</u>		
Fixed deposits	4,000	-
Cash and bank balances	14	15
Public Finance Berhad		
<u>Insurance fund</u>		
Fixed deposits	-	13,000
<u>Non-insurance fund</u>		
Fixed deposits	-	4,000
Public Merchant Bank Berhad		
<u>Insurance fund</u>		
Fixed deposits	3,000	-
	=====	=====

These transactions have been entered into in the normal course of business at commercial terms.

## 23. CURRENCY

All amounts are stated in Ringgit Malaysia.