

Lonpac Insurance Bhd

(Company No. 307414-T)

(Incorporated in Malaysia)

Financial statements for the year ended 31 December, 2005 together with Directors' and Auditors' reports

Domiciled in Malaysia
Registered office
6th 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, 2005

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 31 December, 2005.

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

	RM'000
Net profit for the year	54,789 =====

DIVIDENDS

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

	RM'000
In respect of the financial year ended 31 December, 2005:	
First interim dividend of 30% less 28% taxation paid on 13/07/2005	21,600
Second interim dividend of 30% less 28% taxation paid on 22/12/2005	21,600

	43,200 =====

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.

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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 Committees

i. Membership and Meetings of the Committees

The composition of the Committees and the meetings held during the financial year ended 31 December 2005 are as follows:

<u>Director</u>	Nominating	Remuneration	Risk Management
	← (Attendance/Number of Meetings) →		
Tan Sri Dato' Sri Dr. Teh Hong Piow <i>(Non-Independent Non-Executive Director)</i>	Member (4/4)	Member (2/2)	-
Dato' Yeoh Chin Kee <i>(Independent Non-Executive Director)</i>	Chairman (4/4)	Chairman (2/2)	Chairman (3/3)
Geh Cheng Hooi <i>(Independent Non-Executive Director)</i>	Member (4/4)	Member (2/2)	Member (3/3)
Lee Chin Guan <i>(Independent Non-Executive Director)</i>	Member (4/4)	Member (2/2)	Member (3/3)
Tee Choon Yeow <i>(Non-Independent Executive Director)</i>	Member (4/4)	-	-

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 or 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 review the outsourcing risk management programme and policies for the Board's approval.
- (vi) To review the management's evaluation on the materiality of all existing and prospective outsourcing, based on the framework approved by the Board.
- (vii) To ensure that the approved outsourcing policies and procedures are implemented.
- (viii) To review the management's periodic review on the outsourcing policies and procedures implemented to ensure their continued effectiveness in managing outsourcing risks.
- (ix) Being communicated by the management on the information pertaining to material outsourcing risks in a timely manner.
- (x) 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

Assessed and reviewed 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 of 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, Mr. Lee Chin Guan and Mr. Tan Kok Guan retire at the forthcoming Annual General Meeting and, being eligible, offer themselves 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.

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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. Geh Cheng Hooi, 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.

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: 6 January 2006

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 42 are properly drawn up to give a true and fair view of the state of affairs of the Company as at 31 December, 2005 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: 6 January 2006

Lonpac Insurance Bhd

(Company No. 307414-T)

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**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 42, 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 6 January 2006.

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 42. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

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, 2005 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 Ayadurai
Partner
Approval Number: 1722/09/07(J)

Date: 6 January 2006

Lonpac Insurance Bhd

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BALANCE SHEET AS AT 31 DECEMBER, 2005

	Note	2005 RM'000	2004 RM'000
ASSETS			
Property and equipment	3	12,495	10,807
Investments	4	424,461	364,970
Loans (secured)	5	16,921	15,263
Receivables	6	49,567	49,024
Cash and bank balances		4,812	6,616
		-----	-----
TOTAL GENERAL BUSINESS AND SHAREHOLDER'S FUND ASSETS		508,256	446,680
		=====	=====
LIABILITIES			
Provision for outstanding claims	7	149,468	128,117
Payables	8	39,834	34,057
Provision for taxation		6,375	3,905
		-----	-----
Total general business and shareholder's fund liabilities		195,677	166,079
		-----	-----
Unearned premium reserves	9	129,956	109,059
		-----	-----
SHAREHOLDER'S FUND			
Share capital	10	100,000	100,000
Reserves		82,623	71,542
		-----	-----
Total shareholder's fund		182,623	171,542
		-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S FUND		508,256	446,680
		=====	=====

The notes set out on pages 19 to 42 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, 2005

	Note	<i>Non-Distributable</i>		<i>Distributable</i>	
		Share capital	Foreign exchange reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000
At 1 January, 2004		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
Currency translation differences		-	(508)	-	(508)
Net losses not recognised in the income statement		-	(508)	-	(508)
Net profit for the year		-	-	54,789	54,789
Dividends	11	-	-	(43,200)	(43,200)
At 31 December, 2005		100,000	201	82,422	182,623
		=====			
		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 42 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, 2005

	Note	2005 RM'000	2004 RM'000
Operating Revenue	12	406,002 =====	352,236 =====
Shareholder's fund:			
Investment income	13	502	534
		-----	-----
		502	534
Transfer from General Insurance Revenue Account		75,477	53,457
		-----	-----
Profit before taxation		75,979	53,991
Taxation	17	(21,190)	(15,414)
		-----	-----
Net profit for the year		54,789 =====	38,577 =====
Earnings per share (sen)			
- Basic	18	55	39
		-----	-----

The notes set out on pages 19 to 42 form an integral part of, and should be read in conjunction with, these financial statements.

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GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2005

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Gross premium		111,457	100,447	100,603	76,733	14,959	11,772	152,749	139,782	379,768	328,734
Less: Reinsurance		(41,459)	(40,450)	(13,864)	(11,005)	(7,569)	(6,482)	(80,568)	(77,872)	(143,460)	(135,809)
Net premium		69,998	59,997	86,739	65,728	7,390	5,290	72,181	61,910	236,308	192,925
Increase in unearned premium reserves	9	(4,723)	(7,714)	(10,697)	(1,576)	(949)	(156)	(4,765)	(5,717)	(21,134)	(15,163)
Earned premium		65,275	52,283	76,042	64,152	6,441	5,134	67,416	56,193	215,174	177,762
Net claims incurred	19	(14,121)	(12,518)	(48,448)	(51,018)	(2,073)	(2,441)	(39,970)	(30,569)	(104,612)	(96,546)
Net commission		(6,455)	(7,223)	(8,004)	(5,989)	(548)	(201)	(1,019)	1,083	(16,026)	(12,330)
		(20,576)	(19,741)	(56,452)	(57,007)	(2,621)	(2,642)	(40,989)	(29,486)	(120,638)	(108,876)
Underwriting surplus before management expenses		44,699	32,542	19,590	7,145	3,820	2,492	26,427	26,707	94,536	68,886
Management expenses	15									(50,219)	(40,765)
Underwriting surplus										44,317	28,121

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GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2005

(continued)

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Underwriting surplus										44,317	28,121
Investment income	13									25,732	22,968
Other operating income/ (expenses)-net	14									5,428	2,368
Transfer to income statement										<u>75,477</u>	<u>53,457</u>

The notes set out on pages 19 to 42 form an integral part of, and should be read in conjunction with, these financial statements.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2005

	2005 RM'000	2004 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	75,979	53,991
Adjustments for:		
Depreciation	3,356	2,610
Gain on disposal of property and equipment	(74)	(162)
Property and equipment written off	-	20
(Gain)/Loss on disposal of investments	(61)	7
Increase in unearned premium reserves	21,134	15,163
Interest paid on reinsurers' deposits	5	10
Investment income	(26,234)	(23,502)
Provision for outstanding claims	21,711	17,253
Provision/(Writeback) for diminution in value of investment	270	(171)
	-----	-----
Profit from operations before changes in operating assets and liabilities	96,086	65,219
(Increase)/Decrease in due premiums including agents/brokers and co-insurers balances and amount due from reinsurers and cedants	(7,532)	11,421
Decrease/(Increase) in other receivables, deposits and prepayments and income due and accrued	6,989	(7,684)
Increase in staff loans	(1,658)	(3,265)
Increase in other payables and accrued expenses	142	268
Increase/(Decrease) in amount due to reinsurers, cedants, agents/brokers, co-insurers and insureds	5,635	(8,781)
Increase in fixed deposits	(58,372)	(17,310)
Purchase of Malaysian and Singapore Government Securities	(6,400)	(19,269)
Purchase of unquoted debentures, bonds, unit trust and loan stocks	(6,669)	(10,103)
Purchase of other investments	(1,816)	(2,080)
Proceeds from maturity of Malaysian Government Securities	3,410	-
Proceeds from disposal of investment	348	8
Proceeds from unquoted debentures, bonds, unit trust and loan stocks	8,167	22,660
	-----	-----
	38,330	31,084
Tax paid	(18,720)	(13,241)
Interest paid on reinsurers' deposits	(5)	(10)
Investment income received		
- Dividend	14,997	12,838
- Interest	11,498	10,830
- Others	293	246
	-----	-----
Net cash generated from operating activities	46,393	41,747
	-----	-----

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2005

(continued)

	2005 RM'000	2004 RM'000
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	192	162
Purchase of property and equipment	(5,235)	(4,362)
Amortisation of premiums in respect of Malaysian and Singapore Government Securities	726	586
Amortisation of premium in respect of Malaysian Government Guaranteed Loan	27	28
Amortisation of premium in respect of Cagamas bonds	2	3
Accretion of discounts on unquoted bonds	(201)	(205)
	(4,489)	(3,788)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITY		
Dividend paid to holding company	(43,200)	(36,000)
	(43,200)	(36,000)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(1,296)	1,959
Cash and cash equivalents at beginning of year	6,616	3,823
Effects of exchange rate changes	(508)	834
	4,812	6,616
	=====	=====
Cash and cash equivalents comprise:		
Cash and bank balances	4,812	6,616
	=====	=====

The notes set out on pages 19 to 42 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, 2005

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 410 (2004 - 370).

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, 6th, 7th, 21st – 25th 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 6 January 2006.

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 except as disclosed in the notes to the financial statements 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

Capital work-in-progress are stated at cost. All other 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.

Capital work-in-progress are not amortised. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

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, and a specific allowance for diminution in value will be made 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 income statement/ 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 income statement/ 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.

Premium income

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) General Insurance Underwriting Results (continued)

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) 1/24th method for all other classes of Malaysian general policies business.
- (iii) 1/24th method for all other classes of overseas inward business.

The UPR calculation is adjusted for additional UPR as required under the guidelines issued by Bank Negara Malaysia in respect of premiums ceded to overseas reinsurers.

Non annual policies

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

Provision for Outstanding 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. Acquisition costs or ceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

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	RM2.24	(2004 - RM2.28)
---------	--------	-----------------

(j) Liabilities

Trade and other payables are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxation

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	Capital work-in- progress RM'000	Total RM'000
At 1 January 2005	4,649	785	2,486	2,605	10,368	3,245	-	24,138
Additions	-	59	882	1,130	2,908	200	56	5,235
Disposals	-	(63)	(10)	-	-	(385)	-	(458)
Written Off	-	(6)	(21)	(9)	(6)	-	-	(42)
Exchange differences	(82)	(2)	(6)	(10)	(12)	(5)	-	(117)
At 31 December 2005	4,567	773	3,331	3,716	13,258	3,055	56	28,756
<i>Accumulated depreciation</i>								
At 1 January 2005	1,212	521	1,710	1,628	6,974	1,286	-	13,331
Charge for the year	91	115	474	560	1,520	596	-	3,356
Disposals	-	(63)	(2)	-	-	(275)	-	(340)
Written Off	-	(6)	(21)	(9)	(6)	-	-	(42)
Exchange differences	(22)	(1)	(4)	(4)	(10)	(3)	-	(44)
At 31 December 2005	1,281	566	2,157	2,175	8,478	1,604	-	16,261
<i>Net book value</i>								
At 31 December 2005	3,286	207	1,174	1,541	4,780	1,451	56	12,495
At 31 December 2004	3,437	264	776	977	3,394	1,959	-	10,807
Depreciation charge for the year ended 31 December 2004	93	94	335	379	1,213	496	-	2,610

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3. PROPERTY AND EQUIPMENT (continued)

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

	2005 RM'000	2004 RM'000
At cost:		
Office equipment	282	336
Furniture and fittings	1,310	1,060
Renovations	1,047	893
Computers	5,592	4,664
Motor vehicles	5	216
	=====	=====

4. INVESTMENTS

	2005		2004	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Investment property, at cost				
Freehold land and building	400		400	
	-----		-----	
Malaysian Government Securities	41,000		36,974	
Amortisation of premiums	(1,678)		(1,138)	
	-----		-----	
	39,322	39,859	35,836	37,047
	-----	-----	-----	-----
Malaysian Government Guaranteed Loan	10,136		10,136	
Amortisation of premiums	(109)		(82)	
	-----		-----	
	10,027	10,051	10,054	10,075
	-----	-----	-----	-----
Singapore Government Securities	4,847		6,171	
Amortisation of premiums	(150)		(97)	
	-----		-----	
	4,697	4,625	6,074	6,361
	-----	-----	-----	-----
Unit trust	5,087	5,545	101	210
	-----	-----	-----	-----
Quoted:				
Equity securities in corporations				
In Malaysia	55,109	127,689	53,759	136,886
Outside Malaysia	1,851	1,904	1,838	1,684
	-----	-----	-----	-----
	56,960	129,593	55,597	138,570
Provision for diminution in value	-	-	(154)	-
	-----	-----	-----	-----
	56,960	129,593	55,443	138,570
	-----	-----	-----	-----

4. INVESTMENTS (continued)

	2005		2004	
	Cost	Market	Cost	Market
	RM'000	Value	RM'000	Value
		RM'000		RM'000
Unquoted:				
Equity securities in corporations				
In Malaysia	235		235	
Outside Malaysia	55		56	
	290		291	
Provision for diminution in value	(55)		(56)	
	235		235	
Debentures, bonds and loan stocks	18,329		25,031	
Provision for diminution in value	(532)		(113)	
Accretion of discounts	419		218	
	18,216		25,136	
Cagamas bonds	5,007		5,007	
Amortisation of premiums	(5)		(3)	
	5,002		5,004	
Fixed deposits with:				
- Licensed banks in Malaysia	235,176		150,364	
- Banks outside Malaysia	39,339		30,623	
- Licensed finance companies	10,000		45,700	
	284,515		226,687	
Total investments	424,461		364,970	
Investments maturing after 12 months	63,443		81,053	

Included in fixed deposits with banks outside Malaysia are deposits amounting to RM1,120,000 (SGD500,000) (2004 - RM1,140,000 (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 (2004 - RM50,269,000).

5. LOANS (SECURED)

	2005	2004
	RM'000	RM'000
Staff loans:		
Receivable within twelve months	1,589	1,473
Receivable after twelve months	15,332	13,790
	<u>16,921</u>	<u>15,263</u>
	=====	=====

Included in staff loans is housing loan to Directors amounting to RM127,000 (2004 - RM187,000).

6. RECEIVABLES

	2005	2004
	RM'000	RM'000
Trade receivables:		
Due premiums including agents/brokers and co-insurers balances	41,293	34,311
Due from reinsurers and cedants	3,532	3,785
Less: Allowance for doubtful debts	(1,977)	(2,780)
	<u>42,848</u>	<u>35,316</u>
	-----	-----
Other receivables:		
Other receivables, deposits and prepayments	3,127	10,323
Income due and accrued	3,592	3,385
	<u>6,719</u>	<u>13,708</u>
	-----	-----
	<u>49,567</u>	<u>49,024</u>
	=====	=====

7. PROVISION FOR OUTSTANDING CLAIMS

	2005	2004
	RM'000	RM'000
Provision for outstanding claims	257,076	171,230
Less: Recoverable from reinsurers	(107,608)	(43,113)
	<u>149,468</u>	<u>128,117</u>
	=====	=====

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8. PAYABLES

	2005	2004
	RM'000	RM'000
Trade payables:		
Due to reinsurers and cedants	29,457	24,928
Due to agents/brokers, co-insurers and insureds	3,226	2,120
	<hr/>	<hr/>
	32,683	27,048
Other payables:		
Other payables and accrued expenses	7,151	7,009
	<hr/>	<hr/>
	39,834	34,057
	=====	=====

9. UNEARNED PREMIUM RESERVES

	Fire	Motor	Marine, Aviation & Transit	Miscellaneous	Total
2005	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	29,721	34,120	1,843	43,375	109,059
Increase in unearned premium reserves	4,723	10,697	949	4,765	21,134
Movement taken up in foreign exchange reserves	(11)	(56)	(3)	(167)	(237)
	<hr/>				
At 31 December	34,433	44,761	2,789	47,973	129,956
	<hr/> <hr/>				
2004					
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/>				

10. SHARE CAPITAL

	2005		2004	
	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	
	2005 RM'000	2004 RM'000	2005 sen	2004 sen
Ordinary dividend				
First interim:				
30% (2004 - 50%) less 28% taxation	21,600	36,000	21.6	36.0
Second interim:				
30% (2004 - Nil) less 28% taxation	21,600	-	21.6	-
	-----	-----	-----	-----
	43,200	36,000	43.2	36.0
	=====	=====	=====	=====

12. OPERATING REVENUE

	Shareholder's fund RM'000	General business RM'000	Total RM'000
2005			
Gross premium	-	379,768	379,768
Investment income (Note 13)	502	25,732	26,234
	-----	-----	-----
	502	405,500	406,002
	=====	=====	=====
2004			
Gross premium	-	328,734	328,734
Investment income (Note 13)	534	22,968	23,502
	-----	-----	-----
	534	351,702	352,236
	=====	=====	=====

13. INVESTMENT INCOME

	Shareholder's fund RM'000	General business RM'000	Total RM'000
2005			
Gross dividends			
- quoted shares in Malaysia	-	14,687	14,687
- quoted shares outside Malaysia	-	145	145
- unquoted shares in Malaysia	-	165	165
Interest income			
- Malaysian Government Securities	-	2,250	2,250
- Malaysian Government Guaranteed Loan	-	400	400
- Cagamas Bond	-	183	183
- Singapore Government Securities	-	227	227
- Debentures/Bonds/Loan Stocks (unquoted)	-	780	780
- Fixed and call deposits	502	7,156	7,658
Rental of properties	-	293	293
Accretion of discounts, net of amortisation of premiums	-	(554)	(554)
	<u>502</u>	<u>25,732</u>	<u>26,234</u>
	=====	=====	=====
2004			
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)
	<u>534</u>	<u>22,968</u>	<u>23,502</u>
	=====	=====	=====

14. OTHER OPERATING INCOME/(EXPENSES) - NET

	2005	2004
	RM'000	RM'000
Gain/(Loss) on disposal of investments	61	(7)
Gain on disposal of property and equipment	74	162
Interest on staff car loans	181	146
Interest on staff housing loans	356	310
Interest received on inward treaties	1	3
(Provision)/Writeback for diminution in value of investment	(270)	171
Sundry income	5,025	1,583
	<hr/>	<hr/>
	5,428	2,368
	=====	=====

15. MANAGEMENT EXPENSES

	2005	2004
	RM'000	RM'000
Staff salary and bonus	22,167	19,913
Directors' remuneration (Note 16):		
- emoluments	1,147	1,029
- contribution to a provident fund	129	115
	<hr/>	<hr/>
	23,443	21,057
Auditors' remuneration		
- audit fees	219	159
- underprovision in prior year	19	-
Bad and doubtful debts	(787)	(594)
Depreciation	3,356	2,610
Directors' fees (Note 16)	465	430
Property and equipment written off	-	20
Rental expense on office premises	2,901	2,423
Interest paid on reinsurers' deposits	5	10
IGSF levies	524	411
Other expenses	20,074	14,239
	<hr/>	<hr/>
	50,219	40,765
	=====	=====

Staff salary and bonus include contributions to Employee Provident Fund of RM2,188,000 (2004 - RM1,981,000).

16. DIRECTORS' AND CEO'S REMUNERATION

	2005 RM'000	2004 RM'000
Executive Directors		
- Fees	90	80
- Salaries	662	589
- Bonuses	413	368
- Benefit-in-kind	68	57
- Other Remuneration	129	115
	-----	-----
	1,362	1,209
	-----	-----
Non-Executive Directors		
- Fees	375	350
- Benefit-in-kind	35	32
- Other Remuneration	72	72
	-----	-----
	482	454
	-----	-----
Total Directors' Remuneration	1,844	1,663
	=====	=====

The estimated monetary value of Directors' benefits-in-kind is RM102,750 (2004 - RM88,913).

The remuneration, including benefits-in-kind, attributable to the CEO of the Company during the year amounted to RM891,680 (2004: RM 796,715).

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

	Number of Directors	
	2005	2004
Executive Directors		
RM50,001 – RM400,000	-	-
RM400,001 – RM450,000	-	1
RM450,001 – RM500,000	1	-
RM500,001 – RM750,000	-	-
RM750,001 – RM800,000	-	1
RM800,001 – RM850,000	-	-
RM850,001 – RM900,000	1	-
Non-Executive Directors		
RM50,001 – RM100,000	3	3
RM100,001 – RM150,000	-	-
RM150,001 – RM200,000	1	1

17. TAXATION

	2005	2004
	RM'000	RM'000
Current year's provision:		
Malaysian taxation - current	21,300	15,455
- prior years	(164)	(77)
Overseas taxation - current	54	36
	<u>21,190</u>	<u>15,414</u>
	=====	=====
Reconciliation of effective tax expense		
Profit before taxation	75,979	53,991
	<u>75,979</u>	<u>53,991</u>
Income tax using Malaysian tax rates	21,274	15,117
Effect of different tax rates for offshore business	(737)	(293)
Non-deductible expenses	1,101	972
Tax exempt income	(9)	-
Effect of deductible temporary differences not recognised	(326)	(347)
Other items	51	42
	<u>21,354</u>	<u>15,491</u>
Overprovision in prior years	(164)	(77)
	<u>21,190</u>	<u>15,414</u>
	=====	=====

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank approximately RM43,133,000 of its distributable retained profits at 31 December 2005, if paid out as dividends.

18. EARNINGS PER SHARE

Earnings per share is calculated based on the net profit for the year of RM54,789,000 (2004 - RM38,577,000) divided by the number of ordinary shares in issue of 100,000,000 (2004 - 100,000,000) during the year.

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19. NET CLAIMS INCURRED

		Fire	Motor	Marine, Aviation & Transit	Miscellaneous	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
2005						
Gross claims paid less salvage		16,618	51,279	4,547	47,920	120,364
Reinsurance recoveries		(5,046)	(9,606)	(2,802)	(20,009)	(37,463)
Net claims paid	(a)	11,572	41,673	1,745	27,911	82,901
Net outstanding claims:						
At 31 December	(b)	11,578	83,644	3,003	51,243	149,468
At 1 January	(c)	9,035	76,967	2,677	39,438	128,117
Exchange difference taken up in foreign exchange reserve	(d)	(6)	(98)	(2)	(254)	(360)
Net claims incurred	(a+b-c-d)	14,121	48,448	2,073	39,970	104,612
2004						
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

20. SEGMENT INFORMATION ON CASH FLOW

	General business RM'000	Shareholder's fund RM'000	Total RM'000
2005			
Cash flow from:			
Operating activities	3,193	43,200	46,393
Investing activities	(4,489)	-	(4,489)
Financing activities	-	(43,200)	(43,200)
	-----	-----	-----
	(1,296)	-	(1,296)
	-----	-----	-----
Net decrease in cash and cash equivalents	(1,296)	-	(1,296)
Cash and cash equivalents:			
At 1 January	6,558	58	6,616
Effect of foreign exchange differences	(508)	-	(508)
	-----	-----	-----
At 31 December	4,754	58	4,812
	-----	-----	-----
2004			
Cash flow from:			
Operating activities	5,747	36,000	41,747
Investing activities	(3,788)	-	(3,788)
Financing activities	-	(36,000)	(36,000)
	-----	-----	-----
	1,959	-	1,959
	-----	-----	-----
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
	-----	-----	-----
At 31 December	6,558	58	6,616
	-----	-----	-----

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.

21. FINANCIAL INSTRUMENTS (continued)

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 behavioural 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, adequate 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 fail to perform as contracted.

Management monitors the exposure to credit risk 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. The management monitors the risks in the Company's investments, including careful selection of issuers and a geographical spread of investment.

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 reprise or mature, whichever is earlier. There are no interest-bearing financial liabilities.

	← 2005 →					← 2004 →				
	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 year RM'000	1-5 years RM'000	After 5 years RM'000
Financial assets										
Malaysian branch										
Debt securities held to maturity:										
Malaysian Government Securities	6.2	39,322	4,509	34,813	-	6.6	35,836	-	35,836	-
Malaysian Government Guaranteed Loan	3.7	10,027	-	10,027	-	3.7	10,054	-	10,054	-
Debentures, bonds and loan stocks										
- Unquoted	7.3	10,633	-	1,000	9,633	7.7	15,432	-	6,000	9,432
Cagamas bonds	3.7	5,002	-	5,002	-	3.7	5,004	-	5,004	-
Fixed and call deposits	2.9	245,176	245,176	-	-	3.0	196,064	196,064	-	-
Staff loans	3.2	16,288	1,445	6,439	8,404	3.3	14,483	1,277	5,958	7,248
Singapore branch										
Debt securities held to maturity:										
Singapore Government Securities	4.4	4,697	2,321	2,376	-	4.1	6,074	227	3,572	2,275
Debentures, bonds and loan stocks										
- Unquoted	2.5	7,583	6,991	592	-	3.3	9,704	824	3,494	5,386
Fixed and call deposits	2.2	39,339	39,339	-	-	0.8	30,623	30,623	-	-
Staff loans	1.5	633	144	382	107	1.5	780	196	354	230

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.

Financial assets	2005 Carrying amount RM'000	2005 Fair value RM'000	2004 Carrying amount RM'000	2004 Fair value RM'000
Malaysia Branch				
Malaysian Government Securities	39,322	39,859	35,836	37,047
Malaysian Government Guaranteed Loan	10,027	10,051	10,054	10,075
Equity securities in corporations				
- Quoted	55,109	127,689	53,759	136,886
Unit trust	4,987	5,304	-	-
Debentures, bonds and loan stocks				
- Unquoted	10,633	11,732	15,432	16,228
Cagamas bonds	5,002	5,006	5,004	5,048
Staff loans	16,288	16,288	14,483	14,483
	<hr/> 141,368	<hr/> 215,929	<hr/> 134,568	<hr/> 219,767
Singapore Branch				
Singapore Government Securities	4,697	4,625	6,074	6,361
Equity securities in corporations				
- Quoted	1,851	1,904	1,684	1,684
Unit trust	100	241	101	210
Debentures, bonds and loan stocks				
- Unquoted	7,583	7,583	9,704	9,709
Staff loans	633	633	780	780
	<hr/> 14,864	<hr/> 14,986	<hr/> 18,343	<hr/> 18,744
	<hr/> <hr/> 156,232	<hr/> <hr/> 230,915	<hr/> <hr/> 152,911	<hr/> <hr/> 238,511

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 is 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 Tan Sri Dato' Sri Dr. Teh Hong Piow has substantial interests are as follows:

	2005 RM'000	2004 RM'000
Transactions		
With companies in which Tan Sri Dato' Sri Dr. Teh Hong Piow, a Director, has substantial interests:		
Public Holdings Sdn. Bhd.		
- Rental paid	(1,987)	(1,545)
- Premium income generated from assets insured with the Company	647	641
Public Bank Berhad		
- Rental paid	(12)	(12)
- Commission incurred for insurance business introduced	(13,852)	(11,579)
- Premium income generated from assets insured with the Company	15,295	13,724
- Dividend income	14,219	12,594
- Fixed deposits income	782	1,046

22. SIGNIFICANT RELATED PARTY DISCLOSURES (continued)

	2005 RM'000	2004 RM'000
PB International Factors Sdn. Bhd.		
- Commission incurred for insurance business introduced	(3)	(8)
- Premium income generated from assets insured with the Company	4	11
PB Securities Sdn. Bhd.		
- Stockbroking commission paid for equity investment	(6)	(6)
- Premium income generated from assets insured with the Company	79	34
Public Mutual Berhad		
- Premium income generated from assets insured with the Company	1,467	836
PB Properties Sdn. Bhd.		
- Premium income generated from assets insured with the Company	95	60
Public Merchant Bank Berhad		
- Premium income generated from assets insured with the Company	82	72
- Fixed deposits income	1,054	22
Public Leasing & Factoring Sdn. Bhd.		
- Commission incurred for insurance business introduced	(11)	(75)
- Premium income generated from assets insured with the Company	-	3
	=====	=====

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:

	2005	2004
	RM'000	RM'000
Public Bank Berhad		
<u>Insurance fund</u>		
Fixed deposits	27,672	10,507
Quoted shares	50,269	50,269
Cash and bank balances	3,114	2,856
<u>Non-insurance fund</u>		
Fixed deposits	1,000	4,000
Cash and bank balances	16	14
Public Merchant Bank Berhad		
<u>Insurance fund</u>		
Fixed deposits	36,646	3,000
<u>Non-insurance fund</u>		
Fixed deposits	4,740	-
	=====	=====

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

23. CURRENCY

All amounts are stated in Ringgit Malaysia.