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ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

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ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2004.

PRINCIPAL ACTIVITIES

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

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

RESULTS

| | Group RM'000 | Company RM'000 |
|-------------------------|-------------------------------|---------------------------------|
| Net profit for the year | <u>9,276</u> | <u>9,276</u> |

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividends paid and declared by the Company since 31 December 2003 was as follows:

| | RM'000 |
|---|---------------|
| In respect of the financial year ended 31 December 2003 as disclosed in the directors' report of that year: | |
| Second interim dividend of 5% less 28% taxation, paid on 16 April 2004 | <u>3,600</u> |
| In respect of the financial year ended 31 December 2004: | |
| Interim dividend of 5% less 28% taxation | <u>3,600</u> |

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 December 2004 of 5% on 100,013,000 ordinary shares less 28% taxation amounting to a total dividend of RM3,600,000 (5 sen gross per share) will be proposed for shareholders' approval. Such dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2005.

DIRECTORS

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

Datuk Dr. K. Ampikaipakan
Albert Saychuan Cheok
Tan Sri Dato' G. Pasamanickam
Tan Sri A. Tharmalingam s/o Arunasalam
Vell Paari a/l Samy Vellu
Mohd Yusof bin Idris
Kirupalani a/l Chelliah
Yoshiyuki Ishida

In accordance with the Article 96 of the Company's Articles of Association, Datuk Dr. K. Ampikaipakan and Kirupalani a/l Chelliah who retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Tan Sri Dato' G. Pasamanickam and Tan Sri A. Tharmalingam s/o Arunasalam who retire pursuant to Section 129 of the Companies Act, 1965 and a resolution is being proposed for their 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.

CORPORATE GOVERNANCE

(a) Responsibility of the Board of Directors

The Board of Directors ('the Board') is charged with the responsibility of leading the Company with good corporate governance, ensuring goals and objectives are achieved, and putting in place a sound and strategic decision making process and operating environment for the Company's business.

The Board ensures compliance with the Insurance Act, 1996 and regulations ('the Act'), various guidelines issued by Bank Negara Malaysia (BNM), and best practices in internal control and risk management in the discharge of its oversight and stewardship functions. Risk Management, Nomination and Remuneration Committees are amongst the functional committees overseeing the effective and continual observance to the compliance requirements and stewardship responsibilities.

(b) Composition and meetings

Members of the Board comprise one (1) independent non-executive chairman, five (5) independent non-executive directors, one (1) non-independent non-executive director and one (1) executive director. All appointments are in accordance with the Act and BNM guidelines.

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

During the financial year the members of the Board met nine (9) times, with attendance recorded as follows:

| Name | Number of Board meetings | |
|--|--------------------------|------|
| | Attended | % |
| Datuk Dr. K. Ampikaipakan | 9/9 | 100% |
| Albert Saychuan Cheok | 8/9 | 89% |
| Tan Sri Dato' G. Pasamanickam | 8/9 | 89% |
| Tan Sri A. Tharmalingam s/o Arunasalam | 8/9 | 89% |
| Vell Paari a/l Samy Vellu | 8/9 | 89% |
| Mohd Yusof bin Idris | 9/9 | 100% |
| Kirupalani a/l Chelliah | 7/9 | 78% |
| Yoshiyuki Ishida | 7/9 | 78% |

(c) Management Committees

The Board had set up and delegated certain responsibilities to Management Committees to facilitate the execution of its duties and responsibilities. These committees have their respective terms of reference, and respective chairmen report to the Board on their proceedings.

(i) Risk Management Committee (RMC)

The RMC comprises two (2) independent non-executive directors (INED) and one (1) non-independent non-executive director (NINED), as follows:

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

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

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

(ii) Audit Committee (AC)

The AC comprises four (4) independent non-executive as follows:

| | |
|-------------------------------|-----------------|
| Datuk Dr. K. Ampikaipakan | (Chairman/INED) |
| Albert Saychuan Cheok | (INED) |
| Tan Sri Dato' G. Pasamanickam | (INED) |
| Kirupalani a/l Chelliah | (INED) |

Terms of reference, in main, include ensuring the independent operations of the internal audit department with appropriate job scope to provide assurance that the company goals and objectives are achieved, internal controls are sound and assets are safeguarded, annual accounts, internal and external audit reports are reviewed, and any disclosure of related party transactions are adhered to. The AC also recommends appointment/re-appointment of external auditors.

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

(iii) Nomination Committee (NC)

Members of the committee are as follows:

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

The NC is empowered to evaluate and recommend the appointment of directors as members of the management committees, and propose new directors to the Board and BNM for appointment, and existing directors for re-appointment or re-election. Suitability, competencies and contributions of directors are reviewed prior to any recommendation. The NC also performs annual review of the Board composition, size and skill requirements for effective discharge of Board responsibilities.

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

The NC met once during the financial year.

(iv) Remuneration Committee (RC)

The RC consists of the following directors:

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

The RC is responsible for reviewing and recommending remuneration packages for the executive director and changes to staff remuneration policies. The RC is also charged with the responsibility of ensuring that the remuneration packages commensurate with industry standards, need for retention and motivation of staff.

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

(d) Management Accountability

The Company has an organizational structure with clear roles, accountabilities and responsibilities. Delegated authorities are clearly documented.

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

(e) Corporate Independence

All significant related party transactions have been disclosed in Note 26 to the financial statements.

(f) Internal Controls and Operational Risk Management

The Board ensures that a sound risk management and internal control system is in place, competent to recognize and assess material risks and complete for financial controls, and provide reasonable assurance that the business is operating effectively and efficiently.

Authority limits, operational risk limits within the risk tolerance boundaries for core business activities, and other exposures are laid down as part of the control activities. System, processes and procedures are regularly reviewed to ensure controls are applicable and rightly balanced.

(g) Public Accountability

The Company, as a custodian of public funds, conducts public dealings fairly, honestly and professionally.

(h) Financial Reporting

The directors are responsible for ensuring that the accounting records are properly kept, and the annual financial statements present a true and fair view, are prepared in accordance to applicable MASB Approved Accounting Standards in Malaysia, Companies Act, 1965 and the Insurance Act, 1996.

As at 31 December 2004, the Company has unreconciled balances which have exceeded the reportable threshold of 2% limit of the total balances in the respective categories referred to in Notes 8 and 11 to the financial statements.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 19 to the financial statements or the fixed salary of a full-time employee 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 he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

| | Number of Ordinary Shares of RM1 Each | | | |
|--|--|---------------|-------------|-----------------------------|
| | 1 January 2004 | Bought | Sold | 31 December 2004 |
| The Company | | | | |
| Tan Sri A Tharmalingam s/o Arunasalam | 76,800 | - | - | 76,800 |

| | Number of Ordinary Shares of RM1 Each | | | 31 December 2004 |
|---|---------------------------------------|--------|------|---------------------|
| | 1 January 2004 | Bought | Sold | |
| Holding company | | | | |
| - Maika Holdings Berhad | | | | |
| Datuk Dr. K. Ampikaipakan | 38,125 | - | - | 38,125 |
| Tan Sri Dato' G. Pasamanickam | 12,501 | - | - | 12,501 |
| Albert Saychuan Cheok | 1,250 | - | - | 1,250 |
| Tan Sri A. Tharmalingam s/o Arunasalam | 1,250 | - | - | 1,250 |
| Vell Paari a/l Samy Vellu | 124,250 | 64,750 | - | 189,000 |

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

OTHER STATUTORY INFORMATION

- (a) Before the balance sheets and income statements of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would:
- (i) require any amount to be written off as bad debts or render the allowance for doubtful debts of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

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

- (g) Before the balance sheets and income statements were made out, the directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including incurred but not reported (“IBNR”) claims.

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AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors

Kirupalani a/l Chelliah

Vell Paari a/l Samy Vellu

Kuala Lumpur, Malaysia
25 March 2005

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Kirupalani a/l Chelliah and Vell Paari a/l Samy Vellu, being two of the directors of Oriental Capital Assurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 13 to 49 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and the Company as at 31 December 2004 and of the results and the cash flows of the Group and the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

Kirupalani a/l Chelliah

Vell Paari a/l Samy Vellu

Kuala Lumpur, Malaysia
25 March 2005

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

I, Mohd Yusof bin Idris, being the director primarily responsible for the financial management of Oriental Capital Assurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 49 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Mohd Yusof bin Idris at
Kuala Lumpur in Wilayah Persekutuan
on 25 March 2005

Mohd Yusof bin Idris

Before me,

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

We have audited the financial statements set out on pages 13 to 49. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December 2004 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary have been properly kept in accordance with the provisions of the Act.

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

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

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

Ernst & Young
AF: 0039
Chartered Accountants

Gloria Goh Ewe Gim
No. 1685/04/05(J)
Partner

Kuala Lumpur, Malaysia
25 March 2005

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS
AS AT 31 DECEMBER 2004

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| ASSETS | | | | | |
| Property and equipment | 3 | 16,475 | 17,294 | 16,475 | 17,294 |
| Deferred tax assets | 4 | 2,035 | 3,822 | 2,035 | 3,822 |
| Investments | 5 | 299,329 | 303,043 | 299,329 | 303,043 |
| Investment in subsidiary | 6 | - | - | 50,000 | 50,000 |
| Goodwill | 6 | 26,901 | 28,556 | 26,901 | 28,556 |
| Loans | 7 | 2,128 | 2,660 | 2,128 | 2,660 |
| Receivables | 8 | 49,223 | 60,288 | 49,223 | 60,288 |
| Cash and bank balances | | 3,290 | 3,065 | 3,290 | 3,065 |
| TOTAL ASSETS | | 399,381 | 418,728 | 449,381 | 468,728 |
| LIABILITIES | | | | | |
| Amount due to subsidiary | 9 | - | - | 50,000 | 50,000 |
| Provision for outstanding claims | 10 | 153,876 | 153,679 | 153,876 | 153,679 |
| Payables | 11 | 57,838 | 61,393 | 57,838 | 61,393 |
| Tax payable | | - | 3,405 | - | 3,405 |
| Retirement benefits | 12 | 2,625 | 2,489 | 2,625 | 2,489 |
| Lease payable | | - | 29 | - | 29 |
| TOTAL LIABILITIES | | 214,339 | 220,995 | 264,339 | 270,995 |
| Unearned premium reserves | 13 | 47,101 | 65,468 | 47,101 | 65,468 |
| SHAREHOLDERS' FUND | | | | | |
| Share capital | 14 | 100,013 | 100,013 | 100,013 | 100,013 |
| Share premium account (non-distributable) | | 3,335 | 3,335 | 3,335 | 3,335 |
| Retained profits | | 34,593 | 28,917 | 34,593 | 28,917 |
| | | 137,941 | 132,265 | 137,941 | 132,265 |
| TOTAL LIABILITIES AND SHAREHOLDERS' FUND | | 399,381 | 418,728 | 449,381 | 468,728 |

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

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

| Group | Note | Share capital RM'000 | Non-distributable Share premium RM'000 | Distributable Retained profits RM'000 | Total RM'000 |
|----------------------------|-------------|---------------------------------|---|--|-------------------------|
| At 1 January 2003 | | 100,013 | 3,335 | 28,905 | 132,253 |
| Net profit for the year | | - | - | 7,212 | 7,212 |
| Dividends | 22 | - | - | (7,200) | (7,200) |
| At 31 December 2003 | | 100,013 | 3,335 | 28,917 | 132,265 |
| Net profit for the year | | - | - | 9,276 | 9,276 |
| Dividends | 22 | - | - | (3,600) | (3,600) |
| At 31 December 2004 | | 100,013 | 3,335 | 34,593 | 137,941 |
| Company | | | | | |
| At 1 January 2003 | | | | | |
| As previously stated | | 100,013 | 3,335 | 21,346 | 124,694 |
| Prior year adjustment | 23 | - | - | (2,897) | (2,897) |
| As restated | | 100,013 | 3,335 | 18,449 | 121,797 |
| Net profit for the year | | - | - | 17,668 | 17,668 |
| Dividends | 22 | - | - | (7,200) | (7,200) |
| At 31 December 2003 | | 100,013 | 3,335 | 28,917 | 132,265 |
| At 1 January 2004 | | | | | |
| As previously stated | | 100,013 | 3,335 | 33,469 | 136,817 |
| Prior year adjustment | 23 | - | - | (4,552) | (4,552) |
| As restated | | 100,013 | 3,335 | 28,917 | 132,265 |
| Net profit for the year | | - | - | 9,276 | 9,276 |
| Dividends | 22 | - | - | (3,600) | (3,600) |
| At 31 December 2004 | | 100,013 | 3,335 | 34,593 | 137,941 |

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

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| Operating revenue | 15 | 313,815 | 335,234 | 313,815 | 349,756 |
| Shareholders' fund: | | | | | |
| Investment income | 16 | 84 | 72 | 84 | 14,594 |
| Management expenses | 19 | - | (84) | - | (84) |
| Other operating (expenses)/ income | 17 | (1,655) | (1,617) | (1,655) | (1,617) |
| | | (1,571) | (1,629) | (1,571) | 12,893 |
| Transfers from general insurance revenue account | | 18,214 | 14,079 | 18,214 | 14,079 |
| Profit from operations | | 16,643 | 12,450 | 16,643 | 26,972 |
| Taxation | 20 | (7,367) | (5,238) | (7,367) | (9,304) |
| Net profit for the year | | 9,276 | 7,212 | 9,276 | 17,668 |
| Earnings per share (sen) | 21 | | | | |
| Basic | | 9.3 | 7.2 | 9.3 | 17.7 |
| Diluted | | 9.3 | 7.2 | 9.3 | 17.7 |

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

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

| Group and Company | Note | Fire | | Motor | | Marine, Aviation, Offshore and 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 |
| Operating revenue | 15 | | | | | | | | | 313,731 | 335,162 |
| Gross premiums | | 40,482 | 55,150 | 87,875 | 101,383 | 138,032 | 129,072 | 34,196 | 35,930 | 300,585 | 321,535 |
| Reinsurance | | (34,311) | (48,654) | (11,575) | (11,769) | (121,402) | (110,158) | (21,387) | (22,573) | (188,675) | (193,154) |
| Net premium | | 6,171 | 6,496 | 76,300 | 89,614 | 16,630 | 18,914 | 12,809 | 13,357 | 111,910 | 128,381 |
| Decrease/(increase) in unearned premium reserves | 13 | 4,293 | (59) | 7,486 | (216) | 3,546 | (5,245) | 3,042 | (1,612) | 18,367 | (7,132) |
| Earned premium | | 10,464 | 6,437 | 83,786 | 89,398 | 20,176 | 13,669 | 15,851 | 11,745 | 130,277 | 121,249 |
| Net claims incurred | 18 | (4,566) | (2,915) | (67,045) | (69,891) | (15,914) | (14,132) | (7,490) | (9,678) | (95,015) | (96,616) |
| Net commission | | 1,542 | 2,436 | (8,215) | (9,586) | 1,242 | 741 | (1,260) | (1,114) | (6,691) | (7,523) |
| Underwriting surplus before management expenses | | 7,440 | 5,958 | 8,526 | 9,921 | 5,504 | 278 | 7,101 | 953 | 28,571 | 17,110 |
| Management expenses | 19 | | | | | | | | | (26,382) | (24,814) |
| Underwriting surplus/(deficit) | | | | | | | | | | 2,189 | (7,704) |
| Investment income | 16 | | | | | | | | | 13,146 | 13,627 |
| Other operating income/ (expenses) (net) | 17 | | | | | | | | | 2,877 | 8,163 |
| Finance costs | | | | | | | | | | 2 | (7) |
| Transfer to income statement | | | | | | | | | | 18,214 | 14,079 |

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

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

| | Group | | Company | |
|--|-----------------|---------------|-----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net profit before taxation | 16,643 | 12,450 | 16,643 | 26,972 |
| Adjustments for: | | | | |
| Depreciation | 1,935 | 2,015 | 1,935 | 2,015 |
| Amortisation of premiums net of accretion of discounts | 854 | (618) | 854 | (618) |
| Amortisation of goodwill | 1,655 | 1,655 | 1,655 | 1,655 |
| Gain on disposal of investments (net) | (6,603) | (5,133) | (6,603) | (5,133) |
| Provision for retirement benefits | 368 | 287 | 368 | 287 |
| Allowance for/(write back of) provision for diminution in value of investments (net) | 3,702 | (3,003) | 3,702 | (3,003) |
| Allowance for/(write back of) bad and doubtful debts | 985 | (1,001) | 985 | (1,001) |
| Net (decrease)/increase in unearned premium reserves | (18,367) | 7,132 | (18,367) | 7,132 |
| Provision for short-term accumulating compensated absences | - | 422 | - | 422 |
| Interest income | (10,559) | (10,135) | (10,559) | (10,135) |
| Gross dividend income | (2,529) | (2,044) | (2,529) | (16,566) |
| Rental income | (914) | (902) | (914) | (902) |
| Interest expense | - | 7 | - | 7 |
| Property and equipment written off | 49 | - | 49 | - |
| | <u>(12,781)</u> | <u>1,132</u> | <u>(12,781)</u> | <u>1,132</u> |
| Changes in operating assets and liabilities: | | | | |
| Purchase of investments/investment properties | (46,320) | (43,356) | (46,320) | (43,356) |
| Net proceeds from disposal of investments | 42,260 | 30,224 | 42,260 | 30,224 |
| Increase/(decrease) in receivables | 6,633 | (6,131) | 6,633 | (6,131) |

| | Group | | Company | |
|---|----------------|----------------|----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Decrease in payables | (3,555) | (6,590) | (3,555) | (6,590) |
| Increase in outstanding claims | 197 | 13,695 | 197 | 13,695 |
| Decrease in fixed and call deposits | 9,821 | 1,483 | 9,821 | 1,483 |
| Decrease in loans | 532 | 402 | 532 | 402 |
| Net changes in related company balances | - | - | - | (36,252) |
| | <u>(3,213)</u> | <u>(9,141)</u> | <u>(3,213)</u> | <u>(45,393)</u> |
| Interest received (net) | 10,847 | 9,509 | 10,847 | 9,509 |
| Dividend received | 1,973 | 1,611 | 1,973 | 12,067 |
| Rental received | 950 | 893 | 950 | 893 |
| Retirement benefits paid | (232) | (109) | (232) | (109) |
| Tax paid net of recoveries | <u>(5,306)</u> | <u>(1,573)</u> | <u>(5,306)</u> | <u>(1,573)</u> |
| Net cash generated from/(used in) operating activities | <u>5,019</u> | <u>1,190</u> | <u>5,019</u> | <u>(24,606)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Reduction in investment in subsidiary | - | - | - | 25,796 |
| Purchase of property and equipment | <u>(1,165)</u> | <u>(1,391)</u> | <u>(1,165)</u> | <u>(1,391)</u> |
| Net cash (used in)/generated from investing activities | <u>(1,165)</u> | <u>(1,391)</u> | <u>(1,165)</u> | <u>24,405</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Dividends paid | (3,600) | (3,600) | (3,600) | (3,600) |
| Repayment of lease payable | <u>(29)</u> | <u>(82)</u> | <u>(29)</u> | <u>(82)</u> |
| Net cash used in financing activities | <u>(3,629)</u> | <u>(3,682)</u> | <u>(3,629)</u> | <u>(3,682)</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | | |
| | 225 | (3,883) | 225 | (3,883) |
| CASH AND BANK BALANCES AT BEGINNING OF YEAR | | | | |
| | <u>3,065</u> | <u>6,948</u> | <u>3,065</u> | <u>6,948</u> |
| CASH AND BANK BALANCES AT END OF YEAR | | | | |
| | <u>3,290</u> | <u>3,065</u> | <u>3,290</u> | <u>3,065</u> |

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

ORIENTAL CAPITAL ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2004

1. CORPORATE INFORMATION

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

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

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

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

The number of employees in the Group and in the Company as at the end of the financial year was 311 (2003: 318).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 March 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention and comply with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

Assets and liabilities in the balance sheets relate to both the General Insurance Fund and the Shareholders' Fund.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is a company in which the Group has a long-term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill which were not previously recognised in the consolidated income statement.

(c) Goodwill

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

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

In the current financial year, goodwill on the acquisition of business from the subsidiary has been accounted for retrospectively. The effect of this change is disclosed in Note 23.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j). Goodwill is presented separately in the balance sheet.

(d) Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment loss. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j).

Freehold land is not depreciated. Depreciation on other property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

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

Upon the disposal of an item of property and equipment, the difference between the net disposal proceeds and the net carrying amount is charged or credited to the income statement/revenue account.

(e) Investment in Subsidiary

The Company's investment in subsidiary is stated at cost less impairment loss. The policy for the recognition and measurement of impairment loss is in accordance with Note 2(j).

On disposal of such investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(f) Investment Properties

Investment properties consist of investment in land and buildings that are not substantially occupied for use by, or in the operations of the Group.

Investment properties are treated as long-term investments and are stated at cost and include related and incidental expenditure less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j).

On disposal of an investment property, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement/revenue account.

(g) Employee Benefits**Short-term Benefits**

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

Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement/revenue account as incurred.

Staff Retirement Benefits

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

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

(h) Underwriting Results

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

Premium Income

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

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

Unearned Premium Reserves

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

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

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

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

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

Provisions for Claims

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

Provision is also made for the cost of claims together with related expenses incurred but not reported ("IBNR") at balance sheet date, based on an actuarial valuation by a qualified actuary, using mathematical methods of estimation based on, amongst others, actual claims development pattern.

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.

Allowance for Bad and Doubtful Debts

Full allowance is made in the financial statements for outstanding premiums including agents, brokers, and reinsurers balances in arrears for more than six months.

(i) Other Revenue Recognition

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

Interest Income

Interest income is recognised on a time proportion basis.

Gross Dividend Income

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

Rental Income

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

(j) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of the net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is charged to the income statement/revenue account immediately. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

(k) Foreign Currencies

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

(l) Income Tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(m) Cash and Cash Equivalents

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

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

(n) Financial Instruments

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

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

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance contracts are excluded from the scope of Financial Reporting Standard ("FRS") 132 (MASB 24) - Financial Instruments: Disclosure and Presentation.

Malaysian Government Securities and Other Approved Investments

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

Quoted Investments

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

Unquoted Investments

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

Government Guaranteed Bonds and Unquoted Corporate Bonds

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

Receivables

Receivables are carried at anticipated realisable values.

Known bad debts are written off and full allowances are made for outstanding premiums including agents, brokers and reinsurers balances in arrears for more than six months from the date on which they become receivable and for all debts which are considered doubtful.

Payables

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

Equity Instruments

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

3. PROPERTY AND EQUIPMENT

| Group and Company | Land and buildings RM'000 | Renovations RM'000 | Furniture, fittings, office equipment and computers RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---------------------------------|--------------------------------------|-------------------------------|---|----------------------------------|-------------------------|
| Cost | | | | | |
| At 1 January 2004 | 13,534 | 1,924 | 14,612 | 1,996 | 32,066 |
| Additions | - | 36 | 1,121 | 8 | 1,165 |
| Write offs | - | - | (108) | - | (108) |
| At 31 December 2004 | <u>13,534</u> | <u>1,960</u> | <u>15,625</u> | <u>2,004</u> | <u>33,123</u> |
| Accumulated Depreciation | | | | | |
| At 1 January 2004 | 1,251 | 853 | 10,874 | 1,794 | 14,772 |
| Charge for the year | 85 | 196 | 1,468 | 186 | 1,935 |
| Write offs | - | - | (59) | - | (59) |
| At 31 December 2004 | <u>1,336</u> | <u>1,049</u> | <u>12,283</u> | <u>1,980</u> | <u>16,648</u> |
| Net Book Value | | | | | |
| At 31 December 2004 | <u>12,198</u> | <u>911</u> | <u>3,342</u> | <u>24</u> | <u>16,475</u> |
| At 31 December 2003 | <u>12,283</u> | <u>1,071</u> | <u>3,738</u> | <u>202</u> | <u>17,294</u> |

| Group and Company | Land and buildings RM'000 | Renovations RM'000 | Furniture, fittings, office equipment and computers RM'000 | Motor vehicles RM'000 | Total RM'000 |
|--------------------------------------|--------------------------------------|-------------------------------|---|----------------------------------|-------------------------|
| Details at 1 January 2003 | | | | | |
| Cost | 13,534 | 1,924 | 13,221 | 1,996 | 30,675 |
| Accumulated depreciation | 1,166 | 661 | 9,398 | 1,532 | 12,757 |
| Depreciation charge for 2003 | 85 | 192 | 1,476 | 262 | 2,015 |

- (a) Included in land and buildings is the cost of freehold land of RM9,263,000 (2003: RM9,263,000).
- (b) Computers with net book value of nil (2003: RM50,000) were held under finance leases.
- (c) The cost of fully depreciated assets which are still in use is RM6,807,000 (2003: RM8,171,000).

4. DEFERRED TAX ASSETS

| | Group and Company | |
|--|--------------------------|------------------------|
| | 2004 RM'000 | 2003 RM'000 |
| At beginning of year | 3,822 | 4,921 |
| Recognised in the income statement (Note 21) | (1,787) | (1,099) |
| At end of year | 2,035 | 3,822 |

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

2004**Deferred Tax Liabilities**

| | Accelerated capital allowances RM'000 | Total RM'000 |
|------------------------------------|--|-------------------------|
| At beginning of year | 815 | 815 |
| Recognised in the income statement | (191) | (191) |
| At end of year | <u>624</u> | <u>624</u> |

Deferred Tax Assets

| | Receivables RM'000 | Unearned premium reserves RM'000 | Others RM'000 | Total RM'000 |
|------------------------------------|-------------------------------|---|--------------------------|-------------------------|
| At beginning of year | 1,973 | 1,264 | 1,400 | 4,637 |
| Recognised in the income statement | (1,703) | (931) | 656 | (1,978) |
| At end of year | <u>270</u> | <u>333</u> | <u>2,056</u> | <u>2,659</u> |

2003**Deferred Tax Liabilities**

| | Accelerated capital allowances RM'000 | Total RM'000 |
|------------------------------------|--|-------------------------|
| At beginning of year | 816 | 816 |
| Recognised in the income statement | (1) | (1) |
| At end of year | <u>815</u> | <u>815</u> |

Deferred Tax Assets

| | Receivables RM'000 | Unearned premium reserves RM'000 | Others RM'000 | Total RM'000 |
|------------------------------------|-------------------------------|---|--------------------------|-------------------------|
| At beginning of year | 2,260 | 870 | 2,607 | 5,737 |
| Recognised in the income statement | (287) | 394 | (1,207) | (1,100) |
| At end of year | <u>1,973</u> | <u>1,264</u> | <u>1,400</u> | <u>4,637</u> |

5. INVESTMENTS

| Group and Company | 2004 | | 2003 | |
|---|------------------------|--|------------------------|--|
| | Cost RM'000 | Market/ indicative value RM'000 | Cost RM'000 | Market/ indicative value RM'000 |
| Investment properties, at cost | | | | |
| Freehold land and buildings | 7,340 | 7,340 | 7,340 | 7,340 |
| Malaysian Government Securities | 39,587 | | 33,592 | |
| Amortisation of premiums net of accretion of discounts | (548) | | (388) | |
| | <u>39,039</u> | <u>41,120</u> | <u>33,204</u> | <u>35,369</u> |
| Cagamas papers | 5,123 | | 5,123 | |
| Amortisation of premiums net of accretion of discounts | (104) | | (1) | |
| | <u>5,019</u> | <u>5,025</u> | <u>5,122</u> | <u>5,124</u> |
| Quoted in Malaysia: | | | | |
| Shares of corporations | 50,834 | | 50,653 | |
| Provision for diminution in value | (19) | | - | |
| | <u>50,815</u> | <u>57,899</u> | <u>50,653</u> | <u>55,742</u> |
| Corporate bonds | 1,122 | | 1,053 | |
| Provision for diminution in value | (94) | | (136) | |
| | <u>1,028</u> | <u>1,060</u> | <u>917</u> | <u>917</u> |
| Unit trusts | 609 | | 580 | |
| Provision for diminution in value | (22) | | (56) | |
| | <u>587</u> | <u>587</u> | <u>524</u> | <u>524</u> |
| Unquoted: | | | | |
| Shares of corporations | 290 | | 1,359 | |
| Provision for diminution in value | (71) | | - | |
| | <u>219</u> | | <u>1,359</u> | |
| Corporate bonds | 75,392 | | 72,316 | |
| Amortisation of premiums net of accretion of discounts | (828) | | 1,069 | |
| | <u>74,564</u> | | <u>73,385</u> | |

| Group and Company | 2004 | | 2003 | |
|--|------------------------|--|------------------------|--|
| | Cost RM'000 | Market/ indicative value RM'000 | Cost RM'000 | Market/ indicative value RM'000 |
| Fixed and call deposits with financial institutions: | | | | |
| Commercial banks | 67,916 | | 75,066 | |
| Finance companies | 28,661 | | 41,162 | |
| Other corporations | 24,141 | | 14,311 | |
| | <u>120,718</u> | | <u>130,539</u> | |
| TOTAL INVESTMENTS | <u>299,329</u> | | <u>303,043</u> | |

Group and Company
2004 **2003**
RM'000 **RM'000**

Investments maturing after 12 months:

| | | |
|---------------------------------|----------|--------------|
| Malaysian Government Securities | 35,412 | 28,381 |
| Cagamas papers | 5,019 | 5,122 |
| Unquoted corporate bonds | 63,280 | 63,503 |
| Fixed and call deposits | - | 1,008 |
| | <u>-</u> | <u>1,008</u> |

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

| | Weighted average rate of return | | Weighted average remaining maturity | |
|---------------------------------|--|--------------------------|--|------------------------|
| | 2004 (% p.a.) | 2003 (% p.a.) | 2004 (Days) | 2003 (Days) |
| Malaysian Government Securities | 7.06 | 6.60 | 1,044 | 1,214 |
| Unquoted corporate bonds | 5.92 | 5.29 | 935 | 940 |
| Fixed and call deposits | 2.77 | 3.14 | 129 | 144 |
| | <u>2.77</u> | <u>3.14</u> | <u>129</u> | <u>144</u> |

6. INVESTMENT IN SUBSIDIARY

| | Company | |
|-------------------------------------|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Unquoted shares, at cost: | | |
| At beginning of year | 50,000 | 75,796 |
| Less: Pre-acquisition dividends | - | (25,796) |
| At end of year | <u>50,000</u> | <u>50,000</u> |
| | | |
| | Group and Company | |
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Goodwill on acquisition of business | 33,108 | 33,108 |
| Less: Amortisation | (6,207) | (4,552) |
| | <u>26,901</u> | <u>28,556</u> |

The Company has a 100% interest (2003: 100%) in the subsidiary, Capital OCA Berhad , a company incorporated in Malaysia.

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

7. LOANS

| | Group and Company | |
|--------------------------------|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Staff mortgage loans (secured) | 1,958 | 2,436 |
| Other staff loans: | | |
| Secured | 124 | 159 |
| Unsecured | 46 | 65 |
| | <u>2,128</u> | <u>2,660</u> |
| | | |
| Receivable after 12 months | <u>1,855</u> | <u>2,180</u> |

The weighted average effective interest rate for staff loans as at the balance sheet date was 5% (2003: 5%) p.a. on the basis of monthly rest.

8. RECEIVABLES

| | Group and Company | |
|--|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Trade receivables: | | |
| Due premiums including agents/brokers and co-insurers balances | 22,246 | 28,139 |
| Amount due from reinsurers and cedants | 43,069 | 42,715 |
| | <u>65,315</u> | <u>70,854</u> |
| Allowance for doubtful debts | (24,375) | (23,390) |
| | <u>40,940</u> | <u>47,464</u> |
| Other receivables: | | |
| Sundry receivables, deposits and prepayments | 4,420 | 5,550 |
| Income due and accrued | 2,605 | 2,893 |
| Tax recoverable | 1,258 | 4,381 |
| | <u>8,283</u> | <u>12,824</u> |
| TOTAL RECEIVABLES | <u>49,223</u> | <u>60,288</u> |

Included in trade receivables are amounts due from the holding company, Maika Holdings Berhad, a fellow subsidiary, Semenyih Brickmakers Sdn. Bhd., and a director related corporation, Asian Institute of Medicine, Science and Technology ("AIMST") of nil (2003: RM12,000), nil (2003: RM24,000) and RM98,000 (2003: RM88,000) respectively.

Included in trade receivables of the Company are unreconciled balances of RM3,053,000 (2003: RM5,510,000) (debit) and nil (2003: RM63,000) (credit) which represent the unreconciled differences between the internal records and third party statements from reinsurers, ceding companies, co-insurers and brokers.

The Company is in the process of reconciling these differences which have exceeded the 2% reportable threshold of the total balances in their respective categories.

9. AMOUNT DUE TO SUBSIDIARY

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

10. PROVISION FOR OUTSTANDING CLAIMS

| | Group and Company | |
|----------------------------------|--------------------------|------------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Provision for outstanding claims | 431,444 | 426,854 |
| Recoverable from reinsurers | <u>(277,568)</u> | <u>(273,175)</u> |
| Net outstanding claims | <u>153,876</u> | <u>153,679</u> |

11. PAYABLES

| | Group and Company | |
|--|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Trade payables: | | |
| Due to reinsurers and cedants | 35,041 | 23,643 |
| Due to agents/brokers/co-insurers and insureds | <u>6,033</u> | <u>20,274</u> |
| | <u>41,074</u> | <u>43,917</u> |
| Other payables: | | |
| Dividends payable | 3,600 | 3,600 |
| Sundry payables and accrued liabilities | <u>13,164</u> | <u>13,876</u> |
| TOTAL PAYABLES | <u>57,838</u> | <u>61,393</u> |

Included in trade payables for the Company are unreconciled balances of nil (2003: RM141,000) (debit) and RM1,471,000 (2003: RM1,897,000) (credit) which represent the unreconciled difference between records and third party statements from reinsurers, ceding companies, co-insurers and brokers.

The Company is in the process of reconciling these differences which have exceeded the 2% reportable threshold of the total balances in their respective categories.

12. RETIREMENT BENEFITS

| | Group and Company | |
|--------------------------------|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| At beginning of year | 2,489 | 2,311 |
| Provision for the year | 368 | 287 |
| | <u>2,857</u> | <u>2,598</u> |
| Payments during the year | (232) | (109) |
| At end of year | <u>2,625</u> | <u>2,489</u> |
| Amount payable after 12 months | <u>2,384</u> | <u>2,285</u> |

13. UNEARNED PREMIUM RESERVES

| Group and Company | Marine, Aviation and | | | | Total |
|--|-------------------------------------|---------------|----------------|---------------|---------------|
| | Fire | Motor | Transit | Misc. | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2004 | | | | | |
| At beginning of year | 6,835 | 40,372 | 10,432 | 7,829 | 65,468 |
| Decrease in unearned premium reserves | (4,293) | (7,486) | (3,546) | (3,042) | (18,367) |
| At end of year | <u>2,542</u> | <u>32,886</u> | <u>6,886</u> | <u>4,787</u> | <u>47,101</u> |
| 2003 | | | | | |
| At beginning of year | 6,776 | 40,156 | 5,187 | 6,217 | 58,336 |
| Increase in unearned premium reserves | 59 | 216 | 5,245 | 1,612 | 7,132 |
| At end of year | <u>6,835</u> | <u>40,372</u> | <u>10,432</u> | <u>7,829</u> | <u>65,468</u> |

14. SHARE CAPITAL

| | Number of ordinary shares of RM1 each | | Amount | |
|----------------------------------|--|--------------|----------------|----------------|
| | 2004 '000 | 2003 '000 | 2004 RM'000 | 2003 RM'000 |
| Authorised: | | | | |
| At beginning/end of year | 200,000 | 200,000 | 200,000 | 200,000 |
| Issued and fully paid up: | | | | |
| At beginning/end of year | 100,013 | 100,013 | 100,013 | 100,013 |

15. OPERATING REVENUE

| | Group | | Company | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | 2004 RM'000 | 2003 RM'000 | 2004 RM'000 | 2003 RM'000 |
| General business: | | | | |
| Gross premiums | 300,585 | 321,535 | 300,585 | 321,535 |
| Investment income (Note 16) | 13,146 | 13,627 | 13,146 | 13,627 |
| | 313,731 | 335,162 | 313,731 | 335,162 |
| Shareholders' fund: | | | | |
| Investment income (Note 16) | 84 | 72 | 84 | 14,594 |
| | 313,815 | 335,234 | 313,815 | 349,756 |

16. INVESTMENT INCOME

| | Group | | Company | |
|---------------------------------|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| General business: | | | | |
| Interest income from: | | | | |
| Malaysian Government | | | | |
| Securities | 2,400 | 2,417 | 2,400 | 2,417 |
| Corporate bonds | 4,248 | 2,836 | 4,248 | 2,836 |
| Fixed and call deposits | 3,638 | 4,138 | 3,638 | 4,138 |
| Staff loans | 131 | 160 | 131 | 160 |
| Others | 140 | 512 | 140 | 512 |
| | <u>10,557</u> | <u>10,063</u> | <u>10,557</u> | <u>10,063</u> |
| Gross dividends from shares | | | | |
| quoted in Malaysia | 2,529 | 2,044 | 2,529 | 2,044 |
| Amortisation of premiums net of | | | | |
| accretion of discounts | (854) | 618 | (854) | 618 |
| Rental income | 914 | 902 | 914 | 902 |
| | <u>13,146</u> | <u>13,627</u> | <u>13,146</u> | <u>13,627</u> |
| Shareholders' fund: | | | | |
| Gross dividends from subsidiary | - | - | - | 14,522 |
| Interest income from fixed | | | | |
| and call deposits | 84 | 72 | 84 | 72 |
| | <u>84</u> | <u>72</u> | <u>84</u> | <u>14,594</u> |
| TOTAL INVESTMENT | | | | |
| INCOME | <u>13,230</u> | <u>13,699</u> | <u>13,230</u> | <u>28,221</u> |

17. OTHER OPERATING INCOME/(EXPENSES) (NET)

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| General business: | | | | |
| Other income: | | | | |
| Gain on disposal of investments | 7,767 | 6,013 | 7,767 | 6,013 |
| Write-back of diminution in value of investments | 182 | 5,671 | 182 | 5,671 |
| Gain on disposal of property and equipment | - | 1 | - | 1 |
| Sundry income | 25 | 74 | 25 | 74 |
| | <u>7,974</u> | <u>11,759</u> | <u>7,974</u> | <u>11,759</u> |
| Other expenses: | | | | |
| Loss on foreign exchange - realised | - | (10) | - | (10) |
| Loss on disposal of investments | (1,164) | (880) | (1,164) | (880) |
| Provision for diminution in value of investments | (3,884) | (2,706) | (3,884) | (2,706) |
| Write-off of property and equipment | (49) | - | (49) | - |
| Other operating income (net) | <u>2,877</u> | <u>8,163</u> | <u>2,877</u> | <u>8,163</u> |
| Shareholders' fund: | | | | |
| Amortisation of goodwill | (1,655) | (1,655) | (1,655) | (1,655) |
| Write back of diminution in value of investments | - | 38 | - | 38 |
| Other operating (expense)/income | <u>(1,655)</u> | <u>(1,617)</u> | <u>(1,655)</u> | <u>(1,617)</u> |
| TOTAL OTHER OPERATING INCOME (NET) | <u>1,222</u> | <u>6,546</u> | <u>1,222</u> | <u>6,546</u> |

18. NET CLAIMS INCURRED

| Group and Company | Fire RM'000 | Motor RM'000 | Marine, Aviation and Transit RM'000 | Misc. RM'000 | Total RM'000 |
|--------------------------------|------------------------|-------------------------|--|-------------------------|-------------------------|
| 2004 | | | | | |
| Gross claims paid less salvage | 16,718 | 75,987 | 117,950 | 47,525 | 258,180 |
| Reinsurance recoveries | (12,119) | (8,655) | (103,160) | (39,428) | (163,362) |
| Net claims paid | 4,599 | 67,332 | 14,790 | 8,097 | 94,818 |
| Net outstanding claims: | | | | | |
| At end of year | 8,974 | 98,497 | 25,821 | 20,584 | 153,876 |
| At beginning of year | 9,007 | 98,784 | 24,697 | 21,191 | 153,679 |
| Net claims incurred | 4,566 | 67,045 | 15,914 | 7,490 | 95,015 |
| 2003 | | | | | |
| Gross claims paid less salvage | 9,615 | 77,810 | 19,349 | 35,670 | 142,444 |
| Reinsurance recoveries | (5,483) | (11,828) | (13,177) | (29,035) | (59,523) |
| Net claims paid | 4,132 | 65,982 | 6,172 | 6,635 | 82,921 |
| Net outstanding claims: | | | | | |
| At end of year | 9,007 | 98,784 | 24,697 | 21,191 | 153,679 |
| At beginning of year | 10,224 | 94,875 | 16,737 | 18,148 | 139,984 |
| Net claims incurred | 2,915 | 69,891 | 14,132 | 9,678 | 96,616 |

19. MANAGEMENT EXPENSES

| | Group | | Company | |
|--|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| General business: | | | | |
| Staff costs: | | | | |
| Directors' emoluments (Note a) | 377 | 371 | 377 | 371 |
| Pension costs - EPF (excluding directors' and chief executive officer ("CEO")'s emoluments) (Note a) | | | | |
| | 1,692 | 1,630 | 1,692 | 1,630 |
| Provision for staff retirement gratuities | 368 | 287 | 368 | 287 |
| Short-term accumulating compensated absences | - | 422 | - | 422 |
| Salaries, bonus, allowances and other related costs | 12,322 | 12,059 | 12,322 | 12,059 |
| | <u>14,759</u> | <u>14,769</u> | <u>14,759</u> | <u>14,769</u> |
| Directors' emoluments (Note a): | | | | |
| Fees | 108 | 79 | 108 | 79 |
| Other emoluments | 86 | 77 | 86 | 77 |
| Auditors' remuneration: | | | | |
| Audit fees | 92 | 92 | 90 | 90 |
| Others | 10 | 10 | 10 | 10 |
| Rental of premises | 638 | 636 | 638 | 636 |
| Depreciation | 1,935 | 2,015 | 1,935 | 2,015 |
| Provision for insurance guarantee scheme levy | 317 | 338 | 317 | 338 |
| Allowance for bad and doubtful debts | 6,247 | 7,914 | 6,247 | 7,914 |
| Write-back of allowance for bad and doubtful debts | (5,262) | (8,915) | (5,262) | (8,915) |
| Others | 7,452 | 7,799 | 7,454 | 7,801 |
| | <u>26,382</u> | <u>24,814</u> | <u>26,382</u> | <u>24,814</u> |
| Shareholders' fund: | | | | |
| Integration expenses | - | 84 | - | 84 |
| | <u>-</u> | <u>84</u> | <u>-</u> | <u>84</u> |
| TOTAL MANAGEMENT EXPENSES | <u>26,382</u> | <u>24,898</u> | <u>26,382</u> | <u>24,898</u> |

(a) Emoluments of directors and chief executive officer ("CEO")

| | Group and Company | |
|--|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| CEO: | | |
| Salary | 328 | 322 |
| EPF | 37 | 37 |
| Benefits-in-kind | 24 | 24 |
| Other emoluments | 12 | 12 |
| | <u>401</u> | <u>395</u> |
| Non-executive directors: | | |
| Directors' fees | 108 | 79 |
| Other emoluments | 86 | 77 |
| | <u>194</u> | <u>156</u> |
| Total directors' emoluments | <u>595</u> | <u>551</u> |
| Total included as staff costs (excluding benefits-in-kind) | <u>377</u> | <u>371</u> |

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

| | Number of directors | |
|-------------------------|----------------------------|-------------|
| | 2004 | 2003 |
| Executive director | | |
| RM400,000 - RM450,000 | 1 | - |
| RM350,000 - RM400,000 | - | 1 |
| Non-executive directors | | |
| Below RM50,000 | 7 | 7 |

20. TAXATION

| | Group | | Company | |
|---|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Income tax | 6,728 | 5,199 | 6,728 | 9,265 |
| Deferred tax relating to origination and reversal of temporary differences (Note 4) | 1,787 | 1,099 | 1,787 | 1,099 |
| Net overprovision of taxation in prior years | (1,148) | (1,060) | (1,148) | (1,060) |
| Tax expense for the year | <u>7,367</u> | <u>5,238</u> | <u>7,367</u> | <u>9,304</u> |

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

| | Group | | Company | |
|---|---------------|---------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit before taxation | 16,643 | 12,450 | 16,643 | 26,972 |
| Taxation at Malaysian statutory tax rate of 28% (2003: 28%) | 4,660 | 3,486 | 4,660 | 7,552 |
| Income not subject to tax | (402) | - | (402) | - |
| Expenses not deductible for tax purposes | 2,555 | 2,812 | 2,555 | 2,812 |
| Net overprovision of taxation in prior years | (1,148) | (1,060) | (1,148) | (1,060) |
| Underprovision of deferred taxation in prior years | 1,702 | - | 1,702 | - |
| Tax expenses for the year | 7,367 | 5,238 | 7,367 | 9,304 |

As at 31 December 2004, the Company has tax exempt income account of approximately RM16,678,000 (2003: RM14,418,000) which can be utilised for declaration of tax exempt dividends subject to agreement with the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt balance to frank the payment of dividends out of its entire retained profits as at 31 December 2004.

21. EARNINGS PER SHARE

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

| | Group | | Company | |
|---|--------------|-------------|----------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net profit for the year (RM'000) | 9,276 | 7,212 | 9,276 | 17,668 |
| Number of ordinary shares in issue ('000) | 100,013 | 100,013 | 100,013 | 100,013 |
| Basic earnings per share (sen) | 9.3 | 7.2 | 9.3 | 17.7 |

There is no dilution of earnings per share as there were no dilutive potential ordinary shares as at 31 December 2004. The comparative basic earnings per share has been restated to take into account the effect of the prior year adjustment (Note 2(c) and Note 23) on net profit for the year.

22. DIVIDENDS

| | Amount | | Net dividend per share | |
|--|---------------|--------------|-------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RM | RM | Sen | Sen |
| First interim dividend of 5% (2003: 5%) less 28% taxation | 3,600 | 3,600 | 3.6 | 3.6 |
| Second interim dividend of nil (2003: 5%) less 28% taxation | - | 3,600 | - | 3.6 |
| | <u>3,600</u> | <u>7,200</u> | <u>3.6</u> | <u>7.2</u> |

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 December 2004 of 5% on 100,013,000 ordinary shares less 28% taxation amounting to a total dividend of RM3,600,000 (5 sen gross per share) will be proposed for shareholders' approval. Such dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2005.

23. PRIOR YEAR ADJUSTMENT

In the current financial year, goodwill on acquisition of business has been accounted for retrospectively in line with accounting policy in Note 2(c).

| | Company | |
|---|----------------|----------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Effects on retained profits: | | |
| At 1 January, as previously stated | 33,469 | 21,346 |
| Effect on amortisation of goodwill on acquisition of business | <u>(4,552)</u> | <u>(2,897)</u> |
| At 1 January, as restated | <u>28,917</u> | <u>18,449</u> |
| Effects on net profit for the year: | | |
| Net profit before prior year adjustment | 10,931 | 19,323 |
| Effect on amortisation of goodwill on acquisition of business | <u>(1,655)</u> | <u>(1,655)</u> |
| Net profit for the year | <u>9,276</u> | <u>17,668</u> |

Comparative amounts as at 31 December 2003 have been restated as follows:

| | Previously stated | Adjustment | Restated |
|-------------------------------------|--------------------------|-------------------|-----------------|
| | RM'000 | RM'000 | RM'000 |
| Group | | | |
| Goodwill on consolidation | 28,556 | (28,556) | - |
| Goodwill on acquisition of business | <u>-</u> | <u>28,556</u> | <u>28,556</u> |
| Company | | | |
| Investment in subsidiary | 83,108 | (33,108) | 50,000 |
| Goodwill on acquisition of business | <u>-</u> | <u>28,556</u> | <u>28,556</u> |

24. SEGMENT INFORMATION ON CASH FLOW

| Group and Company | General business RM'000 | Shareholders' fund RM'000 | Total RM'000 |
|--|--|--|-------------------------|
| 2004 | | | |
| Cash flows from: | | | |
| Operating activities | 5,019 | - | 5,019 |
| Investing activities | (1,165) | - | (1,165) |
| Financing activities | (3,629) | - | (3,629) |
| | <u>225</u> | <u>-</u> | <u>225</u> |
| Net increase in cash and cash equivalents: | | | |
| At beginning of financial year | 3,065 | - | 3,065 |
| At end of financial year | <u>3,290</u> | <u>-</u> | <u>3,290</u> |
| | <u>225</u> | <u>-</u> | <u>225</u> |
| 2003 | | | |
| Group | | | |
| Cash flows from: | | | |
| Operating activities | 1,190 | - | 1,190 |
| Investing activities | (1,391) | - | (1,391) |
| Financing activities | (3,682) | - | (3,682) |
| | <u>(3,883)</u> | <u>-</u> | <u>(3,883)</u> |
| Net increase in cash and cash equivalents: | | | |
| At beginning of financial year | 6,948 | - | 6,948 |
| At end of financial year | <u>3,065</u> | <u>-</u> | <u>3,065</u> |
| | <u>(3,883)</u> | <u>-</u> | <u>(3,883)</u> |

| | General business RM'000 | Shareholders' fund RM'000 | Total RM'000 |
|--|--|--|-------------------------|
| Company | | | |
| Cash flows from: | | | |
| Operating activities | (24,606) | - | (24,606) |
| Investing activities | 24,405 | - | 24,405 |
| Financing activities | (3,682) | - | (3,682) |
| | <u>(3,883)</u> | <u>-</u> | <u>(3,883)</u> |
| Net increase in cash and cash equivalents: | | | |
| At beginning of financial year | 6,948 | - | 6,948 |
| At end of financial year | 3,065 | - | 3,065 |
| | <u>(3,883)</u> | <u>-</u> | <u>(3,883)</u> |

25. CAPITAL COMMITMENTS

| | Group and Company | |
|----------------------------------|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Approved but not contracted for: | | |
| Property and equipment | <u>1,095</u> | <u>-</u> |

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

| | Group and Company | |
|--|--------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Premium income: | | |
| Holding company | - | 12 |
| Fellow subsidiary, Semenyih Brickmakers Sdn. Bhd. | - | 24 |
| Director-related corporation, Asian Institute of Medicine, Science and Technology ("AIMST") | 98 | 88 |
| Purchase of computers from a fellow subsidiary, Maika Intellectual Resources Sdn. Bhd. | <u>276</u> | <u>-</u> |

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

27. FINANCIAL INSTRUMENTS

It is inevitable that the principal activities of the Group will expose it to a variety of financial risks, which includes the volatility of changes in investment risk, foreign currency risk, interest rate risk, credit risk, operational risk and liquidity risk. The Group has established a Risk Management Committee comprising of 3 non-executive Directors. The committee's responsibility is to ensure that adequate risk management policies and procedures are in place and are observed.

(a) Investment Risk

The Investment Committee comprising members of the Board oversees the management of the Group's investments. The Investment Committee also defines investment objectives and policies as well as the framework for evaluating fund performance.

Limits of Authority for Investments are in place to ensure compliance with the Group's risk management principles as well as compliance with the legal and regulatory requirements.

The Group's exposure to market risk arises mainly from changes in equity prices. The risk of loss in value is minimised via a thorough analysis before making the investment and continuous monitoring of the performance and risk of the investment. Equity investments are available for sale and the Group manages disposal of its investments to optimise returns on realisation. Provisions are established for adverse changes in fair values of the investments whilst reversals are recognised in the income statement to the extent of previously provided amounts. Gains are recognised only upon disposal of investments.

(b) Foreign Currency Risk

The principal activity that exposes the Group towards foreign currency risk is its business reinsurance arrangements. The reinsurance arrangements with foreign reinsurers, other than for the certain Treaty Reinsurance Inward Arrangements outlined below, are contracted in Malaysian ringgit and as such, no foreign currency risks are involved. The Group has a few Treaty Reinsurance Inward Arrangements with foreign companies. However, these arrangements are almost being totally run off and the residual foreign currency risk is minimal.

(c) Interest Rate Risk

As the Group has no borrowings, its exposure to interest risk is largely through its holdings of term deposits, corporate bonds and government securities, the interest and capital value of which may be affected by changes in the interest yield curve. However, the Company has a policy that investments are made at competitive interest rates.

(d) Credit Risk

Credit risk is the risk of loss due to the inability or unwillingness of a customer or a supplier to meet their contractual obligations. The Group has no significant exposure to credit risk. The Group has in place a credit control policy to minimise uncollectable debts on policies sold.

(e) Liquidity Risk

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

(f) Insurance Risk

The Group's principal activity is to provide general insurance services to the public for protection against the risks of property, casualty and liability losses. The Group has in place a comprehensive underwriting guideline and limit of authority to ensure that risks are accepted in accordance with the authorised limits. The retention of the risks is protected through established reinsurance arrangements with reputable reinsurers who also satisfy the regulatory requirements.

(g) Operational Risk

The Group's operational risk consists of its business processes and operating system, which is primarily the Information Technology. Factors such as, changes in regulatory policies, politics, environment and breakdown in system controls and processes may bring about financial losses to the Group.

The Group has established sufficient internal controls to reduce the impact of operational risk. To ensure that the internal controls are effectively implemented and complied with, the internal auditors conduct periodic reviews and assessments and report to the Board their findings and recommendations.

(h) Fair Values

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

| | 2004 | | 2003 | |
|--|-----------------------------|----------------------|-----------------------------|----------------------|
| | Carrying value RM'000 | Fair value RM'000 | Carrying value RM'000 | Fair value RM'000 |
| Investments: | | | | |
| Malaysian Government | | | | |
| Securities | 39,039 | 41,120 | 33,204 | 35,369 |
| Cagamas papers | 5,019 | 5,025 | 5,122 | 5,124 |
| Quoted shares and bonds of corporations | 51,843 | 58,959 | 51,570 | 56,659 |
| Quoted unit trusts | 587 | 587 | 524 | 524 |
| Danaharta Nasional Berhad | - | - | 10,094 | 10,094 |
| Unquoted corporate bonds | 74,564 | 74,595 | 61,849 | 61,894 |
| Other unquoted corporate bonds | - | - | 1,442 | * |

* it is not practical to estimate the fair value of these other unquoted corporate bonds because there are no readily available secondary market indicative prices for these bonds

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

Cash and Cash Equivalents and Other Receivables/Payables

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

In the opinion of the directors, no disclosure of fair value is made for balance due to subsidiary as it is not practical to determine its fair value with sufficient reliability given that the balance has no fixed terms of repayment.

Investments

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

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

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

28. COMPARATIVES

The presentation and classification of items in the financial statements of the current financial year have been consistent with the previous financial year except that certain comparative amounts have been adjusted as a result of prior year adjustment as disclosed in Note 2(c) and Note 23.

29. CURRENCY

All amounts are stated in Ringgit Malaysia.