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**RHB INSURANCE BERHAD**  
ANNUAL REPORT **2005**



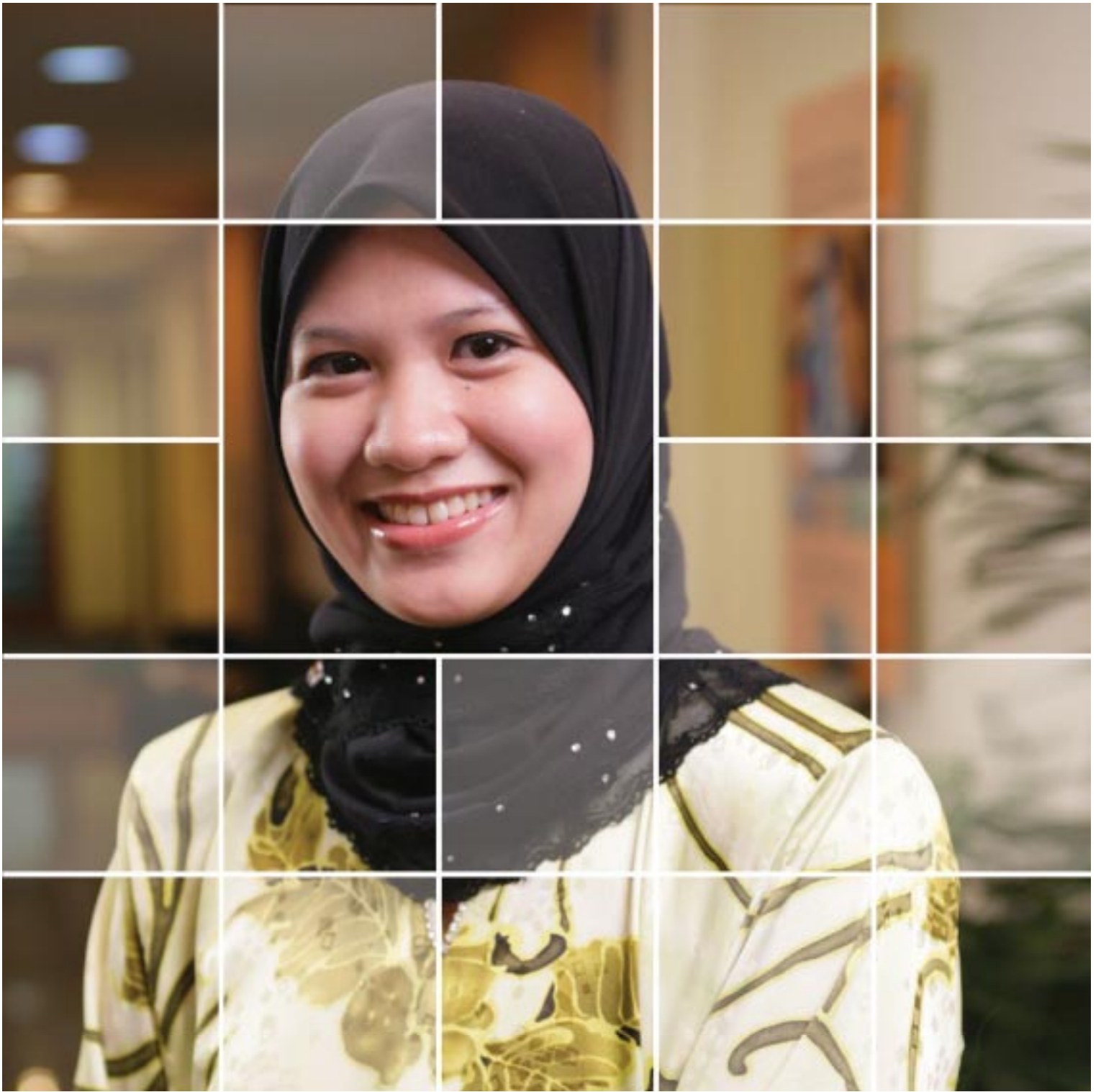
## Delivering Results

Our philosophy is simple - treat customers as real people with real needs. Then follow it up with innovative products and services that surpass their expectations. You can't get any more customer centric than that. After all, we are in the business of delivering results for our customers.

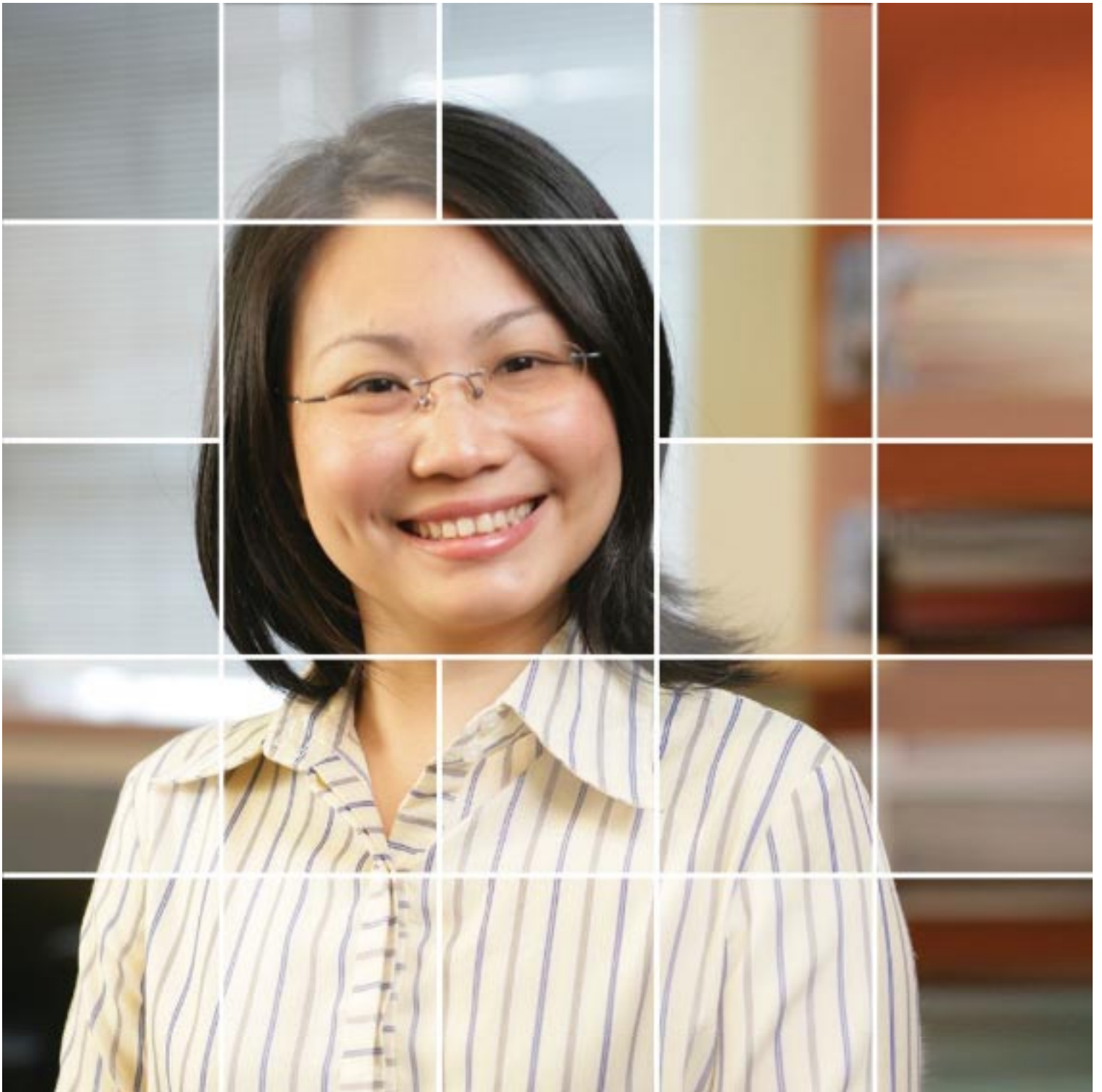
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## corporate section

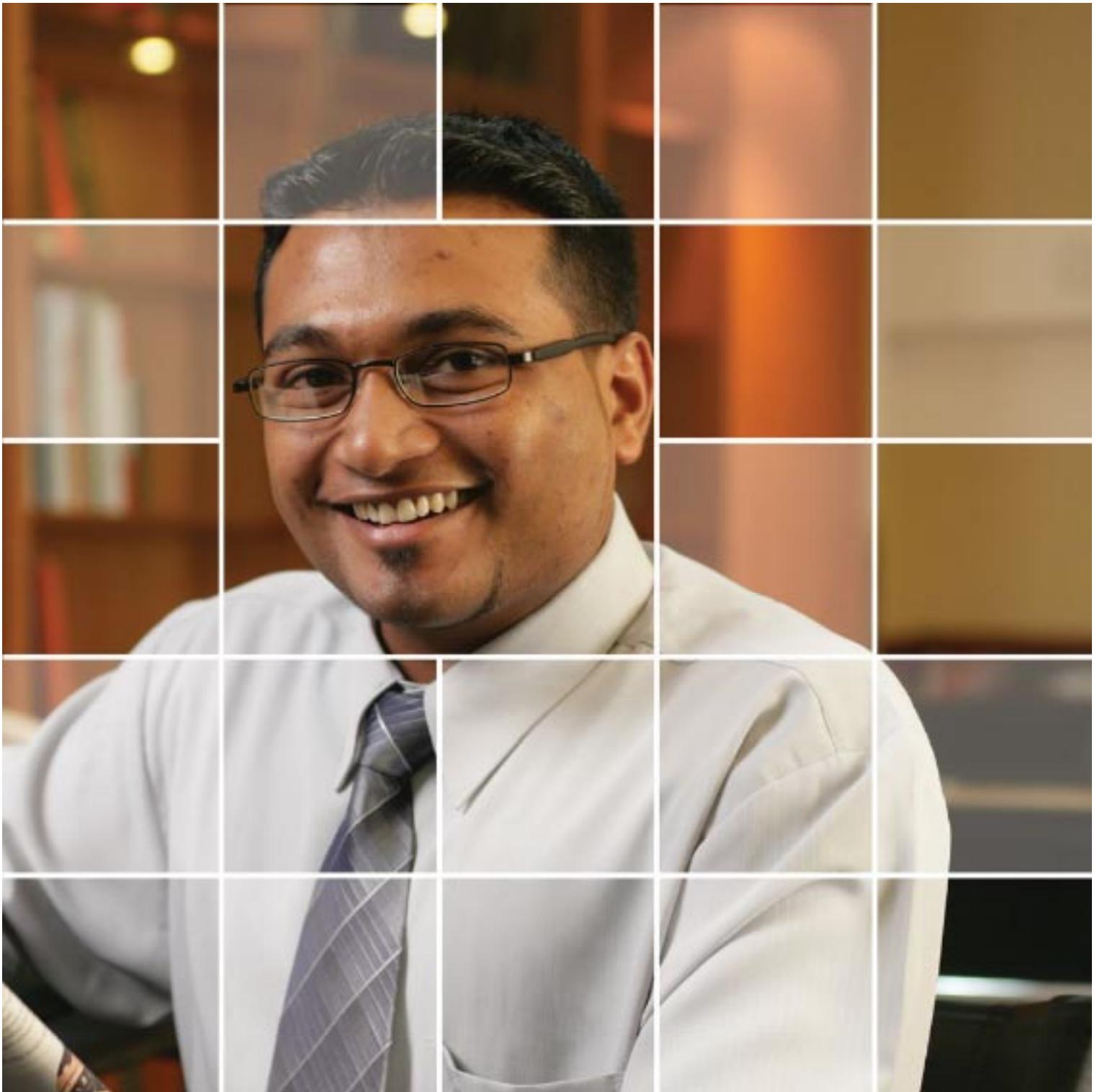
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We know that customers – individuals and businesses alike – require products and services that are easy and intuitive to use, and customer interactions as straightforward and hassle-free as possible. And that’s just the way our approach has been for all our customers since day one of our operations.



Our goal is to introduce cutting-edge technologies that drive markets and bring tangible benefits to our customers, helping businesses to be more productive and more competitive – locally or regionally. And we will continue to be there, for each and every one of our customers.



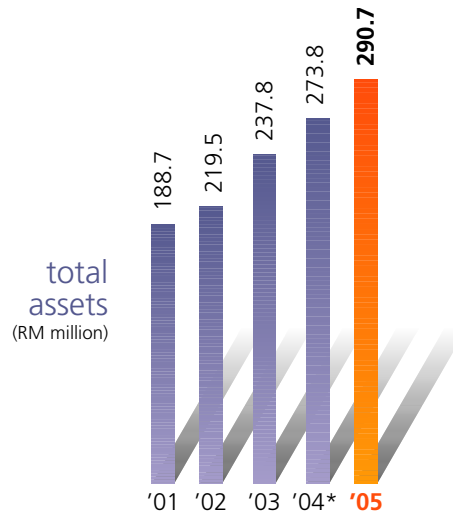
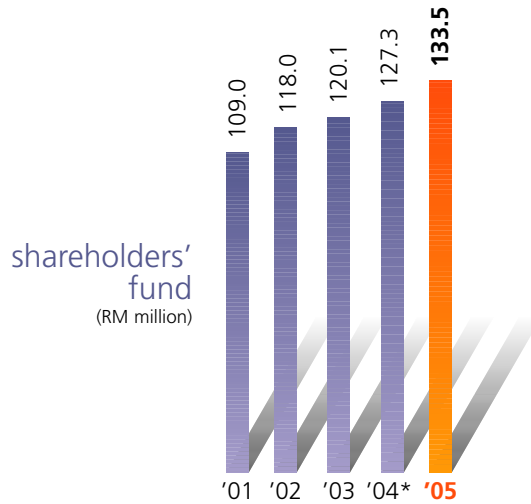
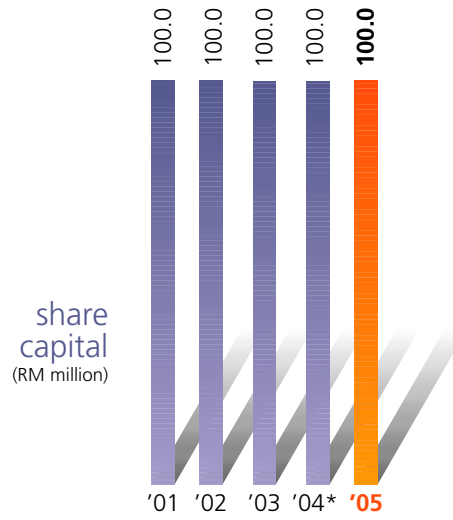
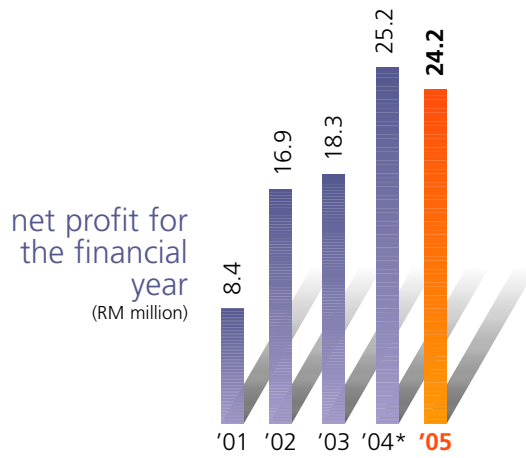
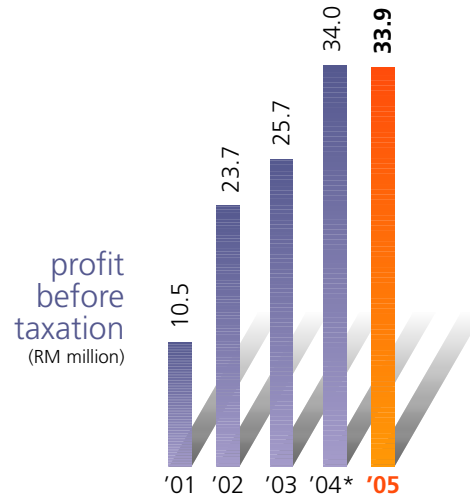
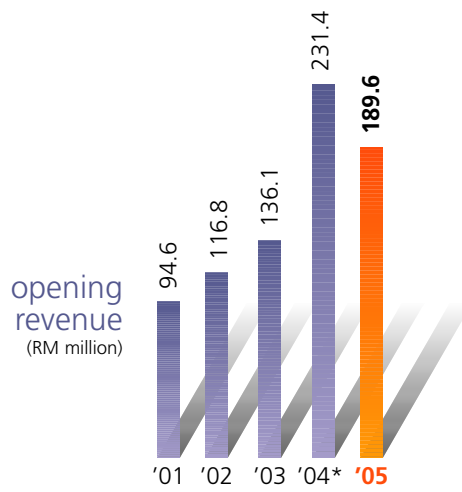
We are passionate about our brand promise of providing superior customer satisfaction. It is in our DNA. We are and will always be true to this commitment. That's why our focus is always centred around our customers. And this will never change.

# financial highlights

	2005 RM million	2004** RM million	2003 RM million	2002 RM million	2001 RM million
<b>RESULTS</b>					
Operating revenue	189.6	231.4	136.1	116.8	94.6
Profit before taxation	33.9	34.0	25.7	23.7	10.5
Net profit for the financial year	24.2	25.2	18.3	16.9	8.4
Dividends - Net	21.6*	18.0	23.4	14.4	4.3
<b>BALANCE SHEETS</b>					
Share capital	100.0	100.0	100.0	100.0	100.0
Shareholders' fund	133.5	127.3	120.1	118.0	109.0
Total Assets	290.7	273.8	237.8	219.5	188.7
<b>RATIOS</b>					
Dividends per share Gross - sen	30.0*	25.0	32.5	20.0	6.0
Net tangible assets per share - (RM)	1.34	1.27	1.201	1.18	1.09

\* Subject to the approval of shareholders at the forthcoming Annual General Meeting.

\*\* The company changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.



\* The company changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

# corporate information – As at 14 April 2006

## BOARD OF DIRECTORS

YBhg Dato' Mohd Salleh Hj Harun  
*Independent Non-Executive Chairman*

Encik Vaseehar Hassan Abdul Razack  
*Non-Independent Non-Executive Director*

YBhg Dato' Mohamed Khadar Merican  
*Independent Non-Executive Director*

Tuan Haji Khairuddin Ahmad  
*Independent Non-Executive Director*

Mr Lim Cheng Yeow  
*Independent Non-Executive Director*

## COMPANY SECRETARY

Encik Azman Shah Md Yaman

## AUDIT COMMITTEE

YBhg Dato' Mohamed Khadar Merican  
*Chairman*

Tuan Haji Khairuddin Ahmad

Mr Lim Cheng Yeow

## RISK MANAGEMENT COMMITTEE

Tuan Haji Khairuddin Ahmad  
*Chairman*

YBhg Dato' Mohamed Khadar Merican

Mr Lim Cheng Yeow

## REGISTERED OFFICE

Level 10, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
Tel : 603-92852233  
Fax : 603-92819314

## INVESTMENT COMMITTEE

YBhg Dato' Mohd Salleh Hj Harun  
*Chairman*

Encik Vaseehar Hassan Abdul Razack

YBhg Dato' Mohamed Khadar Merican

## SENIOR MANAGEMENT

Mr Koh Heng Kong  
*Chief Executive Officer*

Encik Mohammed Mudathir  
Mohammed Muzammil  
*General Manager – Marketing & Business Development*

Ms Winnie Tan  
*Deputy General Manager – Finance & Services*

Mr Chan Meng Onn  
*Assistant General Manager – Business Development & Operations*

Mr Richard Chen  
*Assistant General Manager – Business Development & Operations*

Mr Choo Seng Poh  
*Senior Manager – Technical*

Mr Anthony Ng  
*Senior Manager – Technical Training*

Ms Vasanthakumari Balasundram  
*Senior Manager – Claims*

Hj Abdul Latiff Mohd Ismail  
*Senior Manager – Broking*

## PRINCIPAL PLACE OF BUSINESS

Level 8, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
or  
P.O Box 10835  
50400 Kuala Lumpur  
Tel : 603-92812731  
Fax : 603-92812729

Mr Norman Michael Tan  
*Senior Manager – Northern Region*

Ms Junaili Abdul Hamid  
*Senior Manager – Group*

Encik Wahizan Abdul Wahid  
*Senior Manager – Risk Management (Underwriting)*

## HEAD OF DEPARTMENT

Mr Yee Chee Loong  
*Agency*

Ms Trina Yee  
*Reinsurance*

Mr Edmund Alexander  
*Information Technology*

Mr Vincent Ong  
*Business Support*

Mr Ng Seng Khin  
*Accounts*

Ms Wong Cheng Wai  
*Credit Control*

Encik Muhamad Hafiz Abas  
*Enterprise – Wide Risk Management*

Encik Ahmad Zaidi Khairuddin  
*Compliance*

Ms Shirleen Gan  
*Direct Marketing and Bancassurance*

## COMPANY NO.

38000-U

## AUDITORS

PricewaterhouseCoopers  
Chartered Accountants  
11th Floor, Wisma Sime Darby  
Jalan Raja Laut  
50350 Kuala Lumpur  
Malaysia.



# board of directors

*from left to right:*

*Dato' Mohd Salleh Hj Harun*

*Encik Vaseehar Hassan Abdul Razack*

*Dato' Mohamed Khadar Merican*

*Mr Lim Cheng Yeow*

*Haji Khairuddin Ahmad*



# profile of the board of directors



## **YBHG DATO' MOHD SALLEH HJ HARUN**

*(61 years of age/Malaysian)*

*Independent Non-Executive Chairman*

YBhg Dato' Mohd Salleh Hj Harun ("YBhg Dato' Mohd Salleh") was appointed as an Independent Non-Executive Director of RHB Insurance ("RHB Insurance") on 23 August 2004. He was appointed as Chairman of RHB Insurance Berhad on 15 September 2004. He also serves as the Chairman of the Investment Committee of RHB Insurance.

YBhg Dato' Mohd Salleh is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

YBhg Dato' Mohd Salleh has 31 years of experience in banking and finance sector, having held various senior positions in Aseambankers Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad and Malayan Banking Berhad. He was the Executive Director of Malayan Banking Berhad from 1994 to 2000 prior to joining Bank Negara Malaysia, whereat he served as Deputy Governor from 2000 to 2004.

YBhg Dato' Mohd Salleh's other directorships in public companies include RHB Capital Berhad, RHB Bank Berhad, RHB Islamic Bank Berhad, Titan Chemical Corp. Berhad and Scicom MSC Berhad.



### **ENCIK VASEEHAR HASSAN ABDUL RAZACK**

*(55 years of age – Malaysian)*

*Non-Independent Non-Executive Director*

Encik Vaseehar Hassan Abdul Razack (“Encik Vaseehar Hassan”) was appointed as a Non-Independent Non-Executive Director of RHB Insurance on 4 June 2003. He also serves as a Member of the Investment Committee of RHB Insurance.

Encik Vaseehar Hassan who has a Bachelor Degree in Accounting, Masters in Business Administration as well as Specialised Masters in Consulting and Coaching is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam.

Encik Vaseehar Hassan has 26 years experience in the financial sector. In addition to being the Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia, Encik Vaseehar Hassan’s other directorships in public companies include Rashid Hussain Berhad, RHB Capital Berhad, RHB Bank Berhad, RHB Sakura Merchant Bankers Berhad, RHB Islamic Bank Berhad (Chairman), Utama Banking Group Berhad, CMS Trust Management Berhad and Ingress Corporation Berhad.



### **YBHG DATO’ MOHAMED KHADAR MERICAN**

*(49 years of age – Malaysian)*

*Independent Non-Executive Director*

YBhg Dato’ Mohamed Khadar Merican (YBhg Dato’ Khadar) was appointed as an Independent Non-Executive Director of RHB Insurance on 7 July 2003. He also serves as the Chairman of the Audit Committee and a Member of the Investment Committee and Risk Management Committee of RHB Insurance.

YBhg Dato’ Khadar is a Member of the Institute of Chartered Accountants in England and Wales and also a Member of the Malaysian Institute of Accountants.

YBhg Dato’ Khadar has had over 20 years financial and general management experience in the commercial environment. He was a past President of the Malaysian Association of Hotel Owners. He currently manages his own financial consultancy practice.

YBhg Dato’ Khadar’s other directorships in public companies include Rashid Hussain Berhad, RHB Sakura Merchant Bankers Berhad, RHB Bank Berhad and Astro All Asia Networks plc (AAAN).

## profile of the board of directors



### **TUAN HAJI KHAIRUDDIN AHMAD**

*(63 years of age – Malaysian)*

*Independent Non-Executive Director*

Tuan Haji Khairuddin Ahmad (“Tuan Haji Khairuddin”) was appointed as an Independent Non-Executive Director of RHB Insurance on 28 June 2004. He also serves as Chairman of the Risk Management Committee and a Member of the Audit Committee of RHB Insurance.

Tuan Haji Khairuddin attended the Advance Management Course at Columbia Business School in New York, USA.

Tuan Haji Khairuddin began his career in the banking industry and was previously with Citibank N.A., Southern Bank Berhad, Bank of Commerce Berhad and Arab Malaysian Finance Berhad.

Tuan Haji Khairuddin’s other directorships in public companies include RHB Bank Berhad and RHB Unit Trust Management Berhad.



### **MR LIM CHENG YEOW**

*(71 years of age – Malaysian)*

*Independent Non-Executive Director*

Mr Lim Cheng Yeow (“Mr Lim”) was appointed as an Independent Non-Executive Director of RHB Insurance on 28 June 2004. He also serves as a Member of the Audit Committee and Risk Management Committee of RHB Insurance.

Mr Lim holds a Master of Arts in Economics from Cambridge University.

Mr Lim has over 44 years of experience in the banking and finance related services. He began his career in the banking industry with Malayan Banking Berhad in 1960, whereat he served in various executive positions including Deputy Chief Internal Auditor, Chief Internal Auditor and Head Regional Branch Operations prior to his retirement in 1990.

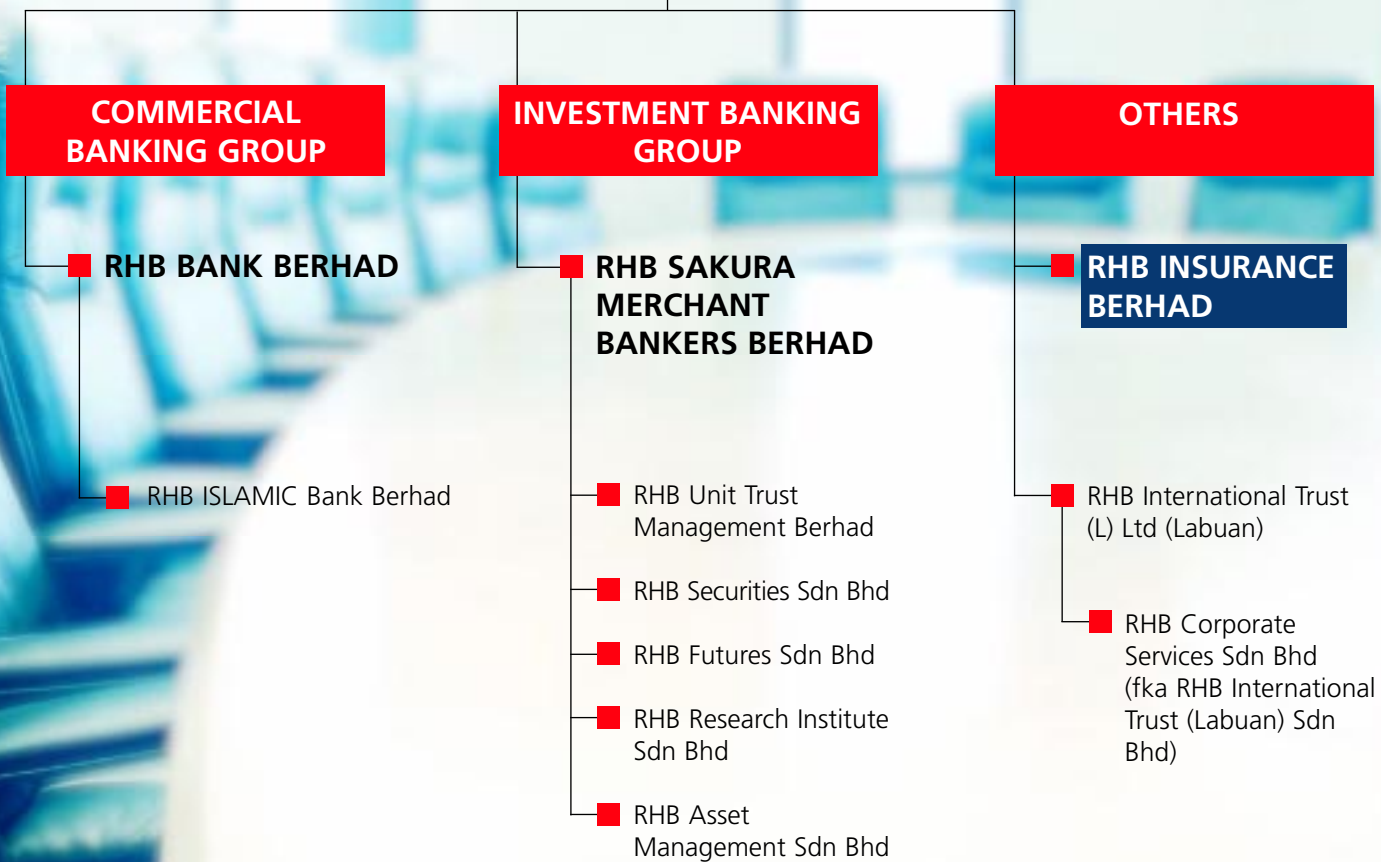
Mr Lim’s other directorships in public companies include RHB Unit Trust Management Berhad and Rock Chemical Industries (Malaysia) Berhad.

# RHB group corporate structure – As at 14 April 2006



**RASHID HUSSAIN BERHAD**

**RHB CAPITAL BERHAD**



# senior



**standing from left :**  
Choo Seng Poh, Richard Chen, Chan Meng Onn, Winnie Tan

**sitting :**  
Koh Heng Kong

# management



**standing from left :**

*Abdul Latiff Mohd Ismail, Anthony Ng, Vasanthakumari  
Balasundram, Junaili Abdul Hamid*

**sitting :**

*Norman Michael Tan*



# chairman's report 2005

“The Company’s overall claims ratio was well below the market average. The total net claims incurred ratio over earned premium for the financial year was 47.2%, compared to the market average of 55.4%. As a result, underwriting surplus increased by 163% to RM23.7 million from the annualised 2004 figure.”



On behalf of the Board, I am pleased to present the Report and Audited Financial Statements of RHB Insurance Berhad ("RHB Insurance") for the 12 months ended 31 December 2005.

## FINANCIAL HIGHLIGHTS

The Malaysian insurance industry recorded a positive performance during year 2005. In the Statistical Bulletin issued by ISM Insurance Services Malaysia Berhad, gross direct premium for the general insurance sector recorded satisfactory growth of 10.0% and wrote an overall premium totalling RM9.4 billion in 2005. Motor class still maintained its dominance accounting for 47.2% share (2004: 45.3%) of the total premium, followed by Miscellaneous Classes at 23.9% (2004: 25.2%), Fire at 18.1% (2004: 19.5%) and Marine & Transit at 10.8% (2004: 10.0%).

The Gross premiums written by RHB Insurance for the financial year ended 31 December 2005 was RM179.2 million compared to RM218.0 million achieved for the 18 months financial period ended 31 December 2004. Comparing on an annualised basis, there is a real increase of 23% (RM33.9 million) which reflected that RHB Insurance has outperformed the market. Similar to previous year, Fire class maintained its dominance in the gross premium written, accounting for 37.7% share (RM67.5 million), followed by Miscellaneous classes at 31.8% (RM57.1 million), Motor class



at 27.3% (RM48.8 million) and Marine & Transit class at 3.2% (RM5.8 million).

Net premium increased at a much higher rate as a result of management's focus on keeping reinsurance premium outwards at an optimum level. Net premium increased 27.7% from the 2004 annualised net premiums to RM123.3 million.

The Company's overall claims ratio was well below the market average. The total net claims incurred ratio over earned premium for the financial year was 47.2%, compared to the market average of 55.4%. As a result, underwriting surplus increased by 163% to RM23.7 million from the annualised 2004 figure. The Company will strive to maintain the healthy overall claims ratio through our risk and claim management initiatives, in addition to maintaining a profitable portfolio of fire business.

It was a challenging year for investments as equity market was volatile amid fears of rising oil prices and increasing interest rates. The

investment income recorded a decrease of 26% to RM 10.1 million from the 2004 annualised income, contributed partly by a provision for diminution in value of RM2.0 million as at 31 December 2005.

Combining both underwriting surplus and investment income for the financial year, the Profit Before Tax generated was at RM33.9 million compared to last financial period (18 months) of RM34.0 million. However, this represents a significant increase of 49.4% from the 2004 annualised Profit Before Tax. Total assets also reflected a healthy growth of RM16.9 million from RM273.8 million to RM290.7 million as at 31 December 2005.

## DIVIDEND

On behalf of the Board of Directors, I am pleased to announce that the Board has recommended a first and final dividend payment of 30.0% less tax at 28.0%, amounting to RM21.6 million for the financial year ended 31 December 2005.

## CORPORATE DEVELOPMENTS

RHB Insurance sees great market potential in East Malaysia as the RHB Group is well entrenched there. As a result, the Sibuluan and Sandakan Branches were opened in Sarawak and Sabah respectively in 2005. Prior to the setting up of the new branches, RHB Insurance has been providing insurance services through

its Kuching and Kota Kinabalu Branches. Being closer and able to provide prompt service to the potential customers in these two major towns, the Company is expected to make inroads in securing a bigger share of the respective markets.

In line with the Company's branding and market penetration strategy, the Company has participated in various

exhibitions and fairs such as the Matta Fair, Wanita Health & Lifestyle Exhibitions 2005 and Naza Kia Sales Carnival to showcase our products and services, and to create further awareness of the Company. As this branding strategy is effective, the Company will continue to make its presence felt in future exhibitions and fairs.



## THE YEAR AHEAD

The country's real GDP growth looks set to strengthen to around 6.0% in 2006 from 5.3% in 2005 on the premise of favourable external environment and resilient domestic demand. Expected export growth for 2006 will be underpinned by recovery in the technological sector

and a robust global economic condition. Domestic demand is expected to improve and grow at a stronger pace on account of increase in consumer spending, private investments and fiscal expenditure.

With new Takaful operators in the industry, competition will be more intense for the Company and RHB

Insurance has braced itself for this challenge. The Company has continued to intensify efforts to be more customer oriented and create standards of excellence in customer service to meet the increasing demands of a more discerning market.





“RHB Insurance is confident that positive, mutually satisfying results for all parties involved will emanate from the strategic partnership with RHB Bank to package Bancassurance products. Undoubtedly, this channel of distribution will be a major contributor to the increase of the Company’s premium production in the immediate future.”

RHB Insurance’s focus on providing excellent customer service has led us to many initiatives to improve our services. Our IT strategic plan was developed in 2005 to create solutions and systems in order to provide operational efficiency and enhance services to customers and agents. The début of our electronic e-marine documentation system has initiated a fast paced momentum for the development of various other electronic products and services which will be ready to be distributed in 2006. These initiatives will see us to more launches in 2006 which will elevate our technology-related products and services to a more advance level.

Concerted effort has been made to capitalise on the opportunities to cross-sell products and services

across the extensive network of the RHB Group of Companies. RHB Insurance is confident that positive, mutually satisfying results for all parties involved will emanate from the strategic partnership with RHB Bank to package Bancassurance products. Undoubtedly, this channel of distribution will be a major contributor to the increase of the Company’s premium production in the immediate future.

#### APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere thanks and appreciation to our business associates and shareholders, for your continued confidence in us as well as your unwavering support for RHB Insurance over the years.

I also take this opportunity to record an appreciation to Bank Negara Malaysia and all other relevant authorities for their valuable guidance and understanding.

In addition, I would also like to thank the Management and staff at all levels for their continuous dedication and commitment to the success of this company.

Finally, on behalf of the Board of Directors, I would also like to extend my appreciation to Mr. Wong Yoke Ming who retired from the Board for his past contributions to the Board.

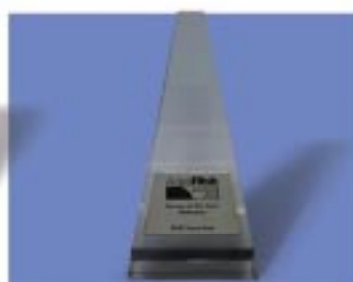
**Dato’ Mohd Salleh Hj Harun**  
Chairman

# RHB Group achievements & awards

1. **Gold Award  
Best Chip Card Programme for AirAsia  
Credit Card**  
*RHB Bank Berhad*
2. **Special Award in Recognition of  
Initiative**  
As the First VISA Infinite Card Issuer in  
Malaysia  
*RHB Bank Berhad*
3. **Best Domestic Providers of FX  
Services**  
As Voted By Malaysia Market  
*RHB Bank Berhad*
4. **Best Domestic Providers of FX  
Services**  
As Voted By Financial Institutions  
*RHB Bank Berhad*
5. **ACM 2005 Best @ Show Award  
Winner, Best New Service**  
*RHB Bank Berhad*
6. **Standard & Poor's Malaysia Fund  
Awards 2005** by The Star  
*RHB Islamic Bond Fund*
7. **Best Project Finance Award (Asia-  
Pacific) 2005** Jimah Energy Ventures Sdn  
Bhd by Euromoney  
*RHB Sakura Merchant Bankers Berhad*
8. **Malaysian Deal of the Year**  
Jimah Energy Ventures Sdn Bhd by the  
Asset Magazine's Triple A Country Award  
*RHB Sakura Merchant Bankers Berhad*
9. **Asia Pacific Bond Deal of the Year**  
Jimah Energy Ventures Sdn Bhd by  
Project Finance International  
*RHB Sakura Merchant Bankers Berhad*
10. **House of the Year Malaysia 2005** by  
Asia Risk  
*RHB Securities Sdn Bhd*
11. **Best Corporate Finance Deal of the  
Year** Jimah Energy Ventures Sdn Bhd by  
The Edge  
*RHB Sakura Merchant Bankers Berhad  
(not in picture)*
12. **Best Local Brokerage (rank 3) & Best  
in Sales Trading in Malaysia (rank 3)**  
by Asia Money Brokers Poll 2005  
*RHB Securities Sdn Bhd  
(not in picture)*
13. **Best Performing Equity Growth Fund  
for 2005 for a 10-year Performance** by  
The Edge-Lipper  
*RHB Unit Trust Management Berhad  
(not in picture)*

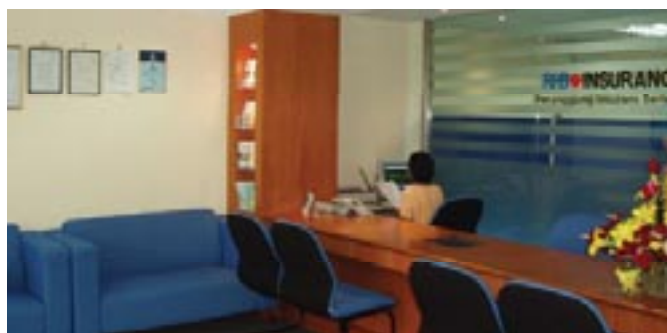


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# RHB Insurance Berhad corporate highlights

business activities



1	1
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1. **Luncheon to mark the official opening of RHB Insurance's Branch**  
10 December 2005  
Sandakan, Sabah
2. **Opening of New Offices**
  - a) March 2006  
Kajang
  - b) September 2005  
Kota Bharu, Kelantan
3. **Opening of New Branches**  
January 2005  
Sibu, Sarawak  
  
December 2005  
Sandakan, Sabah  
*(not in picture)*



**Presentation of eMarine Insurance Services**  
29 September 2005  
Kuala Lumpur



1	2
2	
3	3

1. **Official Launch of Family Personal Accident & Motorist Personal Accident Insurance**  
7 July 2005  
Kuala Lumpur
2. **2005 Annual Staff Outing**  
8 – 9 January 2006  
Pahang

3. **2005 Agency Annual Convention**  
13 – 15 January 2006  
Kedah



# statutory financial statements

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# directors' report

The Directors have pleasure in submitting 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 activity during the financial year.

## FINANCIAL RESULTS

	<b>RM</b>
Net profit for the financial year	24,209,703
Retained earnings brought forward	<u>27,305,628</u>
Profits available for appropriation	51,515,331
Dividends	<u>(18,000,000)</u>
Retained earnings carried forward	<u>33,515,331</u>

## DIVIDENDS

The dividends paid or declared by the Company since 31 December 2004 are as follows:

	<b>RM</b>
In respect of the financial period ended 31 December 2004 as shown in the Directors' report of that financial period, a gross final dividend of 25% less tax at 28%, paid on 29 April 2005.	<u>18,000,000</u>

The Directors now recommend the payment of a final gross dividend in respect of the financial year ended 31 December 2005 of 30% on 100,000,000 ordinary shares, less income tax at 28%, amounting to RM21,600,000, subject to the approval of members at the forthcoming Annual General Meeting of the Company. If approved, the final dividend will be paid on a date to be determined later.

## RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in 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.

# directors' report (continued)

## **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 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 all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

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

## **CURRENT ASSETS**

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so 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 and liabilities of the Company misleading or inappropriate.

## **CONTINGENT AND OTHER LIABILITIES**

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secure the liabilities of any other person, or
- (b) any contingent liability in respect of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Company 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 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, that would render any amount stated in the financial statements misleading.

# directors' report (continued)

## 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 financial year in which this report is made.

## CORPORATE GOVERNANCE

### Introduction

As part of the ongoing measures to raise corporate governance standards in the conduct of insurance business, Bank Negara Malaysia ("BNM") has developed a Prudential Framework of Corporate Governance for Insurance Companies ("the Framework") which was issued as JPI/GPI 25 for adoption by insurers. The primary objective of the Framework is to enhance the corporate accountability of insurers and promote the interests of their stakeholders, specifically those of policy owners, claimants and creditors. The Framework establishes basic principles of good corporate governance which focus on the processes and structures used to direct and manage the business and affairs of insurers.

The Directors are committed to ensure that the highest standards of corporate governance are practised by the Company as a fundamental part of discharging their responsibilities in order to promote the interests of stakeholders and enhance shareholders' value.

### Board Responsibility And Oversight

The Board of Directors comprises five non-executive Directors, four of whom are independent. The Board of Directors is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

10 meetings were held during the financial year ended 31 December 2005.

The details of attendance of each Director at Board meetings held during the financial year are set out below:

No	Name of Directors	Total meetings attended	Percentage of attendance (%)
1	Dato' Mohd Salleh bin Hj Harun	9/10	90
2	Dato' Mohamed Khadar bin Merican	9/10	90
3	Vaseehar Hassan bin Abdul Razack	8/10	80
4	Lim Cheng Yeow	9/10	90
5	Haji Khairuddin bin Ahmad	10/10	100
6	Wong Yoke Ming ( <i>Resigned on 28 September 2005</i> )	8/8	100

Each Director is required, pursuant to BNM Guidelines (JPI/GPI 25), to attend at least 75% of board meetings. All Directors of the Company complied with this requirement for the financial year ended 31 December 2005.

# directors' report (continued)

## CORPORATE GOVERNANCE (CONTINUED)

### Board Responsibility And Oversight (continued)

The Company has continued to utilise the Nominating Committee and Remuneration and Human Resource Committee of its holding company, RHB Capital Berhad, to undertake the role of the Company's Nominating Committee and Remuneration and Human Resource Committee respectively, to be responsible for proposing new nominees for appointment to the Board and the development of relevant policies on the remuneration of Directors and senior management executives.

The Nominating Committee and Remuneration and Human Resource Committee of RHB Capital Berhad currently comprise the following members:

#### Nominating Committee

- 1 Dato' Mohd Salleh bin Hj Harun (*Chairman/Independent Non-Executive Director*)
- 2 Datuk Azlan bin Mohd Zainol (*Member/ Non-Independent Non-Executive Director*)
- 3 Encik Johari bin Abdul Muid (*Member/ Non-Independent Non-Executive Director*)
- 4 Encik Vaseehar Hassan bin Abdul Razack (*Member/Non-Independent Non-Executive Director*)
- 5 Mr Lew Foon Keong (*Member/Independent Non-Executive Director*)

#### Remuneration and Human Resource Committee

- 1 Mr Lew Foon Keong (*Chairman/Independent Non-Executive Director*)
- 2 Encik Johari bin Abdul Muid (*Member/Non-Independent Non-Executive Director*)
- 3 Encik Vaseehar Hassan bin Abdul Razack (*Member/Non-Independent Non-Executive Director*)

The Company has established its own Audit Committee on 24 February 2005 pursuant to the revised BNM Guidelines (Revised JPI/GPI 13) which inter-alia required an insurer to have its own Audit Committee that is separate from that of the group. The members of the Company's Audit Committee were appointed on 30 March 2005 and it comprises the following members:

- 1 Dato' Mohamed Khadar bin Merican (*Chairman/Independent Non-Executive Director*)
- 2 Mr Lim Cheng Yeow (*Member/Independent Non-Executive Director*)
- 3 Haji Khairuddin bin Ahmad (*Member/Independent Non-Executive Director*)

The Company's Risk Management Committee comprises the following members:

- 1 Haji Khairuddin bin Ahmad (*Chairman/Independent Non-Executive Director*)
- 2 Dato' Mohamed Khadar bin Merican (*Member/Independent Non-Executive Director*)
- 3 Mr Lim Cheng Yeow (*Member/Independent Non-Executive Director*)

The primary objective of the Risk Management Committee is to oversee the Senior Management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The Company will continually improve in the methodology to identify and monitor risks. Management has adopted a holistic approach to risk management to capture and monitor risks in a systematic way.

# directors' report (continued)

## **CORPORATE GOVERNANCE (CONTINUED)**

### **Management Accountability**

The Company has a well-documented and updated organizational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees. Management obtains a quarterly declaration from staff on adherence to the insurance industry's Code of Ethics.

Policies and procedures are documented in the operating manuals for all the core functions of the Company such as underwriting, claims, reinsurance and finance. Monthly meetings are scheduled for Senior Management and various working committees i.e. Technical, Marketing, Information Technology Review and Credit Control to communicate on the affairs and operations of the Company. In addition, regular departmental/branch meetings are also held to discuss each operating unit's affairs and to communicate relevant information to staff.

### **Corporate Independence**

The related party transactions are on terms and conditions no more favourable than those available on similar transactions to the Company's other customers. All material related party transactions have been disclosed in the financial statements.

### **Internal Controls And Operational Risk Management**

The Directors acknowledge their responsibility for the system of internal controls maintained by the Company and for reviewing its effectiveness. The system of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement, loss or fraud.

The Board maintains a control-conscious culture across all areas of operations in the Company. There is an on-going process for identifying, evaluating and managing all significant risks faced by the Company which will be regularly reviewed by the Board.

The Group's internal audit regularly reports on compliance with the system of internal controls and procedures to the Management, Audit Committee and the Board. There are also procedures for external auditors to report conclusions and recommendations to the Management, Audit Committee and the Board.

The Group's internal audit will ensure that recommendations to improve controls are followed through by the Management on a timely manner.

### **Public Accountability**

The Company upholds the principles of fairness and professionalism in the conduct of its business. The requirement of a written disclosure in insurance policies pertaining to the existence of the Insurance Mediation Bureau ("IMB") and BNM's Customer Service Bureau ("CSB") is effected on all new and renewal policies issued. The notice will inform the policyholders on the procedures for complaints to the IMB and CSB of any unfair market practices.

### **Financial Reporting**

The Management ensures that proper records are maintained to support all financial transactions and the financial statements are prepared in accordance with MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. In accordance with Section 95(1) of the Insurance Act 1996, on a yearly basis, the statutory financial statements are published in two local newspapers within fourteen days of the Annual General Meeting.

# directors' report (continued)

## CORPORATE GOVERNANCE (CONTINUED)

### Financial Reporting (continued)

The Board and Senior Management receive regular financial and management reports to enable them to effectively monitor the financial performance and condition of the Company in relation to the corporate objectives and responsibilities.

The Management ensures that the monthly and annual returns are submitted to BNM on a timely basis.

## DIRECTORS AND THEIR INTERESTS IN SECURITIES

The Directors who have held office during the year since the date of the last report are:

Dato' Mohd Salleh bin Hj Harun  
Dato' Mohamed Khadar bin Merican  
Vaseehar Hassan bin Abdul Razack  
Lim Cheng Yeow  
Haji Khairuddin bin Ahmad  
Wong Yoke Ming

*(Resigned on 28 September 2005)*

In accordance with Article 74 of the Company's Articles of Association, Dato' Mohamed Khadar bin Merican retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Lim Cheng Yeow retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

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

Ultimate Holding Company	Number of ordinary shares of RM1 each			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
<b>Rashid Hussain Berhad</b>				
Vaseehar Hassan bin Abdul Razack – Indirect <sup>1</sup>	238,127,000	–	–	238,127,000
Dato' Mohamed Khadar bin Merican – Direct	5,000	–	–	5,000
Holding Company	Number of ordinary shares of RM1 each			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
<b>RHB Capital Berhad</b>				
Vaseehar Hassan bin Abdul Razack – Indirect <sup>2</sup>	1,182,896,459	–	–	1,182,896,459
Haji Khairuddin bin Ahmad – Direct	15,000	–	–	15,000
Dato' Mohamed Khadar bin Merican – Direct	10,000	–	–	10,000
Dato' Mohd Salleh bin Hj Harun – Direct	15,000	–	–	15,000

# directors' report (continued)

## DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

Ultimate Holding Company Rashid Hussain Berhad	Nominal Amount (RM) of 2002/2012 0.5% Irredeemable Convertible Unsecured Loan Stocks of RM1.00 each nominal value ('RHB ICULS-A')			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
	Vaseehar Hassan bin Abdul Razack – Indirect <sup>1</sup>	449,206,479	–	–

Each RHB ICULS-A entitles the registered holder of the RHB ICULS-A to convert into one (1) new ordinary share of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.00 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-A dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-A equal to the Conversion Price.

Ultimate Holding Company Rashid Hussain Berhad	Nominal Amount (RM) of 2002/2012 3.0% Irredeemable Convertible Unsecured Loan Stocks of RM1.00 each nominal value ('RHB ICULS-B')			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
	Vaseehar Hassan bin Abdul Razack – Indirect <sup>1</sup>	403,471,898	–	–

Each RHB ICULS-B entitles the registered holder of the RHB ICULS-B to convert into one (1) new ordinary share of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.13 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting RHB ICULS-B dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-B which equal to the Conversion Price or a combination of such nominal value of RHB ICULS-B and cash which aggregates to the Conversion Price, provided that at least RM1.00 nominal value of RHB ICULS-B is surrendered for conversion into one (1) New Share.

Ultimate Holding Company Rashid Hussain Berhad	Number of Warrants 1999/2009			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
	Haji Khairuddin bin Ahmad – Direct	5,000	–	–

Every twenty (20) Warrants 1999/2002 entitle the registered holder to 7 new Warrants 1999/2002 shares held at the issue price of RM0.10 per warrant at any time of from the date of issue on 17 August 1999 at an initial exercise price of RM4.35 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 23 June 1999. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 1999/2002 has been extended by approximately seven (7) years to expire on 16 August 2009 and the Warrants 1999/2002 are now known as Warrants 1999/2009.



# directors' report (continued)

## DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

Ultimate Holding Company Rashid Hussain Berhad	As at 1.1.2005	Number of Warrants 1997/2007		As at 31.12.2005
		Bought	Sold	
Haji Khairuddin bin Ahmad – Indirect <sup>3</sup>	3,000	–	–	3,000

Each Warrant 1997/2002 entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time within a period of four and three quarter (43/4) years from the date of issue on 25 June 1997 at an exercise price of RM18.30 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll created on 25 June 1997. Pursuant to a Supplemental Deed Poll executed on 23 June 1999, the exercise period for the Warrants 1997/2002 was extended by five (5) years to expire on 24 March 2007 and the Warrants 1997/2002 are now known as Warrants 1997/2007.

Ultimate Holding Company Rashid Hussain Berhad	As at 1.1.2005	Number of Warrants 2001/2007		As at 31.12.2005
		Bought	Sold	
Vaseehar Hassan bin Abdul Razack – Indirect <sup>1</sup>	8,000,000	–	–	8,000,000
Haji Khairuddin bin Ahmad – Indirect <sup>3</sup>	13,000	–	–	13,000

Each warrant of Rashid Hussain Berhad ('Warrants 2001/2002') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time from the date of issue on 4 April 2001 at an exercise price of RM1.90 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 13 February 2001. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 2001/2002 has been extended by five (5) years to expire on 24 March 2007 and the Warrants 2001/2002 are now known as Warrants 2001/2007.

### Notes:

- 1 Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Utama Banking Group Berhad ("UBG").
- 2 Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in the ultimate holding company, Rashid Hussain Berhad.
- 3 Indirect interest held by family members.

By virtue of his indirect substantial interest in the shares of Rashid Hussain Berhad ("RHB"), Vaseehar Hassan bin Abdul Razack is also deemed to have an indirect substantial interest in the securities of the Company and all the subsidiary companies of RHB to the extent RHB has an interest.

Other than the above, none of the other Directors in office at the end of the financial year held any interest in the shares in or debentures of the Company or its related corporations during the financial year.

# directors' report (continued)

## **DIRECTORS' BENEFITS**

Since the end of the previous financial period, no Director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related company with a 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, except that certain Directors received remuneration from the Company's holding company and other related corporations.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects 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.

## **HOLDING AND ULTIMATE HOLDING COMPANIES**

The holding company is RHB Capital Berhad and the Directors regard Rashid Hussain Berhad as the ultimate holding company. Both companies are incorporated in Malaysia.

## **AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 25 January 2006.

**DATO' MOHD SALLEH BIN HJ HARUN**  
CHAIRMAN

Kuala Lumpur  
25 January 2006

**VASEEHAR HASSAN BIN ABDUL RAZACK**  
DIRECTOR

# balance sheet

as at 31 December 2005

	Note	2005 RM	2004 RM
<b>ASSETS</b>			
Property, plant and equipment	5	<b>4,248,008</b>	4,189,257
Investments	6	<b>257,771,406</b>	236,400,513
Deferred tax assets	7	<b>1,148,000</b>	365,000
Tax recoverable		–	2,212,002
Loans	8	<b>1,061,795</b>	688,482
Receivables	9	<b>26,284,958</b>	28,124,060
Cash and cash equivalents	10	<b>154,565</b>	1,790,646
Total assets		<b><u>290,668,732</u></b>	<u>273,769,960</u>
<b>LIABILITIES</b>			
Provision for outstanding claims	11	<b>80,153,326</b>	84,556,784
Payables	12	<b>24,218,425</b>	21,232,478
Current tax liabilities		<b>2,879,908</b>	211,402
Unearned premium reserves	13	<b>107,251,659</b> <b>49,901,742</b>	106,000,664 40,463,668
Total liabilities		<b><u>157,153,401</u></b>	<u>146,464,332</u>
<b>SHAREHOLDERS' FUND</b>			
Share capital	14	<b>100,000,000</b>	100,000,000
Retained earnings	15	<b>33,515,331</b>	27,305,628
Total liabilities and shareholders' fund		<b><u>133,515,331</u></b> <b><u>290,668,732</u></b>	<u>127,305,628</u> <u>273,769,960</u>

The above Balance Sheet is to be read in conjunction with the notes to the financial statements on pages 40 to 63.

# income statement

for the 12 months ended 31 December 2005

	Note	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
Operating revenue	16	<b>189,598,450</b>	231,356,384
Surplus transferred from Revenue Account		<b>33,836,510</b>	33,945,705
Non-insurance fund:			
Management expenses	17	<b>(5,350)</b>	(7,850)
Investment income	18	<b>33,576</b>	61,106
Profit before taxation		<b>33,864,736</b>	33,998,961
Taxation	20	<b>(9,655,033)</b>	(8,792,505)
Net profit for the financial year/period		<b>24,209,703</b>	25,206,456
Earnings per share (sen)	21	<b>24.21</b>	25.21
Dividend per share (sen)	22	<b>30.00</b>	25.00

The above Income Statement is to be read in conjunction with the notes to the financial statements on pages 40 to 63.

# general insurance revenue account

for the 12 months ended 31 December 2005

	<b>Note</b>	<b>Fire RM</b>	<b>Motor RM</b>	<b>Marine, Aviation &amp; Transit RM</b>	<b>Miscellaneous RM</b>	<b>Total RM</b>
Gross premium		67,497,963	48,849,166	5,780,358	57,098,956	179,226,443
Less: Reinsurance		(30,020,915)	(3,062,762)	(1,830,551)	(21,029,923)	(55,944,151)
Net premium		37,477,048	45,786,404	3,949,807	36,069,033	123,282,292
Less:						
Increase in unearned premium reserves	13	(1,593,080)	(5,226,956)	(342,664)	(2,275,374)	(9,438,074)
Earned premium		35,883,968	40,559,448	3,607,143	33,793,659	113,844,218
Net claims incurred	23	(11,666,911)	(27,203,376)	1,633,631	(16,532,770)	(53,769,426)
Net commission		(927,978)	(4,484,708)	(338,401)	(4,520,397)	(10,271,484)
Underwriting surplus before management expenses		23,289,079	8,871,364	4,902,373	12,740,492	49,803,308
Management expenses	17					(26,056,710)
Underwriting surplus						23,746,598
Investment income	18					10,338,431
Other expense - net	19					(248,519)
Transfer to Income Statement						33,836,510

The above General Insurance Revenue Account is to be read in conjunction with the notes to the financial statements on pages 40 to 63.

# general insurance revenue account

for the 18 months ended 31 December 2004

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium		89,338,027	53,367,131	7,696,289	67,555,651	217,957,098
Less: Reinsurance		(38,765,534)	(3,996,409)	(3,243,504)	(27,154,431)	(73,159,878)
Net premium		50,572,493	49,370,722	4,452,785	40,401,220	144,797,220
Less:						
Increase in unearned premium reserves	13	(2,541,263)	(4,420,474)	(8,895)	(805,251)	(7,775,883)
Earned premium		48,031,230	44,950,248	4,443,890	39,595,969	137,021,337
Net claims incurred	23	(10,344,625)	(36,688,468)	(1,711,702)	(31,089,090)	(79,833,885)
Net commission		(2,749,372)	(4,586,518)	(437,692)	(5,283,272)	(13,056,854)
Underwriting surplus before management expenses		34,937,233	3,675,262	2,294,496	3,223,607	44,130,598
Management expenses	17					(30,566,061)
Underwriting surplus						13,564,537
Investment income	18					13,338,180
Other income - net	19					7,042,988
Transfer to Income Statement						33,945,705

The above General Insurance Revenue Account is to be read in conjunction with the notes to the financial statements on pages 40 to 63.

# statement of changes in equity

for the 12 months ended 31 December 2005

	Note	Issued and fully paid ordinary shares RM1 each		Distributable Retained earnings RM	Total RM
		No. of shares	Nominal value RM		
<b>12 months ended 31 December 2005</b>					
At beginning of the financial year		<b>100,000,000</b>	<b>100,000,000</b>	<b>27,305,628</b>	<b>127,305,628</b>
Net profit for the financial year		–	–	<b>24,209,703</b>	<b>24,209,703</b>
Dividends for financial period ended – 31 December 2004 (final)	22	–	–	<b>(18,000,000)</b>	<b>(18,000,000)</b>
At end of the financial year		<b>100,000,000</b>	<b>100,000,000</b>	<b>33,515,331</b>	<b>133,515,331</b>
<b>18 months ended 31 December 2004</b>					
At beginning of the financial period		100,000,000	100,000,000	20,099,172	120,099,172
Net profit for the financial period		–	–	25,206,456	25,206,456
Dividends for financial year ended – 30 June 2003 (final)	22	–	–	(18,000,000)	(18,000,000)
At end of the financial period		<b>100,000,000</b>	<b>100,000,000</b>	<b>27,305,628</b>	<b>127,305,628</b>

The above Statement Of Changes In Equity is to be read in conjunction with the notes to the financial statements on pages 40 to 63.

# cash flow statement

for the 12 months ended 31 December 2005

	Note	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the financial year/period		<b>24,209,703</b>	25,206,456
Adjustments for:			
Profit on sale of investments		<b>(1,362,146)</b>	(6,842,898)
Allowance for diminution in value of investments		<b>1,968,908</b>	179,865
Allowance for bad and doubtful debts		<b>686,353</b>	237,207
Amortisation of premiums/(accretion of discounts) - net		<b>76,709</b>	(673,614)
Depreciation of property, plant and equipment		<b>1,479,783</b>	1,842,929
Profit on sale of property, plant and equipment		<b>(200,954)</b>	(110,037)
Increase in unearned premium reserves		<b>9,438,074</b>	7,775,883
Investment income		<b>(10,448,716)</b>	(12,725,672)
Unrealised gain on foreign exchange		<b>(6,406)</b>	(12,832)
Taxation expense		<b>9,655,033</b>	8,792,505
Operating profit before changes in operating assets and liabilities		<b>35,496,341</b>	23,669,792
Purchase of investments		<b>(167,022,138)</b>	(214,426,074)
Proceeds from sale of investments		<b>166,286,040</b>	189,588,390
Interest received		<b>8,879,028</b>	10,894,357
Dividend received		<b>1,740,799</b>	1,241,053
(Increase)/decrease in fixed and call deposits		<b>(21,318,266)</b>	6,184,005
Increase in loans		<b>(373,313)</b>	(195,498)
Decrease/(increase) in amounts due from insureds, agents, brokers and reinsurers		<b>589,758</b>	(4,508,884)
Decrease in other receivables		<b>396,881</b>	61,562
(Decrease)/increase in provision for outstanding claims		<b>(4,403,458)</b>	28,223,937
Increase/(decrease) in amounts due to insureds, agents, brokers and reinsurers		<b>2,636,768</b>	(1,328,684)
Increase in other payables		<b>349,179</b>	1,339,826
Cash generated from operations		<b>23,257,619</b>	40,743,782
Income taxes paid		<b>(5,557,525)</b>	(18,577,217)
Net cash generated from operating activities	24	<b>17,700,094</b>	22,166,565



# cash flow statement

for the 12 months ended 31 December 2005 (continued)

	Note	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(1,545,465)</b>	(3,166,020)
Proceeds from sale of property, plant and equipment		<b>207,885</b>	185,980
Net cash used in investing activities	24	<b>(1,337,580)</b>	(2,980,040)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid		<b>(18,000,000)</b>	(18,000,000)
Net cash used in financing activities	24	<b>(18,000,000)</b>	(18,000,000)
Effects of exchange rate changes on cash and cash equivalents		<b>1,405</b>	(2,185)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,636,081)</b>	1,184,340
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR/PERIOD</b>		<b>1,790,646</b>	606,306
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR/PERIOD</b>	10	<b>154,565</b>	1,790,646

The above Cash Flow Statement is to be read in conjunction with the notes to the financial statements on pages 40 to 63.

# notes to the financial statements

– 31 December 2005

## 1 PRINCIPAL ACTIVITY

The Company, a public limited liability company, incorporated and domiciled in Malaysia, is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

## 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements comply with the applicable accounting standards in Malaysia approved by Bank Negara Malaysia (“BNM”) under Section 90 of the Insurance Act, 1996, the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines/Circulars issued by BNM.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

### (a) Accounting convention

The financial statements are prepared under the historical cost convention, unless otherwise indicated in the accounting policies below.

### (b) Property, plant and equipment

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

Long term leasehold land and buildings are depreciated on the straight line method over the terms of the respective leases, which range from 80 to 95 years. Other property, plant and equipment are depreciated on the straight line method to write off the cost of the property, plant and equipment over their estimated useful lives using the following annual depreciation rates:

Motor vehicles	20% to 33 1/3%
Furniture, fixtures and fittings, office equipment	20% to 33 1/3%

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement or revenue account.

### (c) Investments

Malaysian Government Securities and other investments as specified by BNM are stated at cost, adjusted for the amortisation of premiums or accretion of discounts calculated on an effective yield basis from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statement/revenue account.

# notes to the financial statements

– 31 December 2005 (continued)

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Investments (continued)

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, allowance is made against the value of that investment.

Unquoted investments are stated at cost and an allowance for diminution in value is made, where in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Such a decline is recognised as an expense in the financial year in which the decline is identified.

Gains and losses arising on disposals of investments are credited or charged to the income statement or revenue account.

### (d) Investment income

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

Other interest income, including the amount of amortisation of premiums or accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

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

### (e) Impairment of assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values 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.

An impairment loss is charged to the income statement/revenue account immediately.

A 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 immediately.

### (f) Allowance for bad and doubtful debts

Known bad debts are written off and allowance is made for any debt considered to be doubtful of collection. In addition, allowance is made for any premiums, including agents' and reinsurers' balances, which remain outstanding for more than six months from the date on which they become receivable, except for outstanding motor premiums for which allowance is made for amounts outstanding for more than 30 days.

# notes to the financial statements

– 31 December 2005 (continued)

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) General insurance underwriting results

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

#### ***Premium income***

Premium income is recognised on the date of assumption of risk. Premiums in respect of risks incepted for which policies have not been raised as of the balance sheet date are accrued at the date.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

#### ***Unearned premium reserves***

Unearned premium reserves (“UPR”) represent the portion of premium income not yet earned at the balance sheet date. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM;
- (iii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- (iv) 1/8th method for all classes of overseas inward treaty business with a deduction of 20% for acquisition costs.

#### ***Provision for claims***

Provision is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the balance sheet date. Provision is also made for the cost of claims together with related expenses incurred but not reported (“IBNR”) at the balance sheet date, based on an actuarial valuation by an independent actuary.

#### ***Acquisition costs***

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premium is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

#### ***Inward treaty business***

Premiums, claims and other transactions of inward treaty business are accounted for in the revenue account as and when the statements of account are received.

# notes to the financial statements

– 31 December 2005 (continued)

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Foreign currencies

All transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Assets and liabilities at balance sheet date are translated at the approximate rates of exchange ruling at that date. Exchange differences are taken to the revenue account or income statement.

The principal closing rate used in the translation of foreign currency balances is as follows:

Foreign currency	2005	2004
1 Singapore Dollar	RM2.274	RM2.328

### (i) Income taxes

Current income tax is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise mainly from depreciation of property, plant and equipment, accretion of discounts/amortisation of premiums, general allowance for doubtful debts, unearned premium reserves, provision for gratuities and allowance for diminution in value of investments.

Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

### (j) Employee benefits

#### (i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, and bonuses are accrued in the financial year in which the associated services are rendered by employees of the Company.

#### (ii) Post-employment benefits – Defined contribution plan

The Company contributes to the Employees' Provident Fund, the national defined contribution plan. The Company's contributions to the defined contribution plan are charged to the income statement/revenue account in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

# notes to the financial statements

– 31 December 2005 (continued)

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the revenue account or income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

### (l) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

### (m) Dividends

Dividends on ordinary shares are recognised as liabilities when the obligation to pay is established.

### (n) Financial instruments

The basis of estimation of fair values for financial instruments is as follows:

- (i) The fair values of Malaysian Government Securities are based on the indicative middle prices obtained from Bank Negara Malaysia.
- (ii) The fair values of corporate debt securities are based on the discounted cash flows by using the discount rates at valuation date on securities with similar rating and maturity.
- (iii) The fair values of quoted shares, warrants, loan stocks and Real Estate Investment Trusts (REITs) are based on the quoted market price.
- (iv) The fair values of loans are based on the discounted cash flows by using the interest rates at valuation date on similar loans.
- (v) The carrying amounts of other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company carries out its financial risk management through internal control procedures, standard operating procedures, investment guidelines and strategies, and adherence to all rules and regulations as stipulated by the guidelines for investments issued by BNM.

Arising from the Company's financial instruments, the main financial risks which the Company is exposed to are interest rate risk, market risk, credit risk, liquidity risk and currency risk.

# notes to the financial statements

– 31 December 2005 (continued)

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to the potential adverse changes in market interest rates.

Interest rate risk has an impact on the market values of investments in equities, REITs, fixed income securities and fixed deposits. The Company manages this risk by adopting a diversified approach to investment portfolios to achieve a desired overall interest rate profile based on regular reviews of interest rate outlook and economic condition.

### (b) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of the potential adverse changes in market prices.

The Company's investments in equities, REITs and fixed income securities are outsourced to professional fund managers. To deal with this risk, the Investment Committee oversees the formulation of investment policies and strategies. During the financial year ended 31 December 2005, the Investment Committee held 9 meetings to review and monitor the performance of the fund managers.

### (c) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet payment obligations.

The Investment Committee manages the credit risk associated with investments by setting guidelines on minimum credit ratings and prevent risk concentrations by setting maximum credit exposure for each class of investment and for any one borrower or group of borrowers.

A credit control committee has been established to manage the credit risk of receivables.

### (d) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments and obligations when they fall due.

This is managed by monitoring the daily and monthly projected and actual cash flows, and ensuring that a reasonable quantum of financial assets is maintained in liquid instruments at all times.

### (e) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Company's exposure to currency risk is confined to a current account maintained with a bank in Singapore and certain expenses denominated in foreign currency. The current account was opened to facilitate the collection of premiums from reinsurers in Singapore and the amount involved is very minimal.

# notes to the financial statements

– 31 December 2005 (continued)

## 5 PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land and buildings RM	Motor vehicles RM	Furniture, fixtures and fittings, office equipment RM	Total RM
<b>12 months ended 31.12.2005</b>				
<b>Net book value</b>				
At beginning of financial year	1,058,259	982,699	2,148,299	4,189,257
Additions	–	204,760	1,340,705	1,545,465
Disposals	–	–	(6,931)	(6,931)
Depreciation charge	(13,075)	(319,991)	(1,146,717)	(1,479,783)
At end of financial year	<u>1,045,184</u>	<u>867,468</u>	<u>2,335,356</u>	<u>4,248,008</u>
<b>At 31 December 2005</b>				
Cost	1,152,255	1,742,407	11,840,743	14,735,405
Accumulated depreciation	(107,071)	(874,939)	(9,505,387)	(10,487,397)
Net book value	<u>1,045,184</u>	<u>867,468</u>	<u>2,335,356</u>	<u>4,248,008</u>
<b>At 31 December 2004</b>				
Cost	1,152,255	2,036,140	11,348,231	14,536,626
Accumulated depreciation	(93,996)	(1,053,441)	(9,199,932)	(10,347,369)
Net book value	<u>1,058,259</u>	<u>982,699</u>	<u>2,148,299</u>	<u>4,189,257</u>
<b>18 months ended 31.12.2004</b>				
Depreciation charge for the financial period	<u>19,614</u>	<u>343,904</u>	<u>1,479,411</u>	<u>1,842,929</u>



# notes to the financial statements

– 31 December 2005 (continued)

## 6 INVESTMENTS

	2005		2004	
	Cost RM	Market Value RM	Cost RM	Market Value RM
Malaysian Government Securities	<b>22,467,700</b>		21,898,560	
Amortisation of premiums net of accretion of discounts	<b>(36,896)</b>		(233,289)	
	<b>22,430,804</b>	<b>22,133,800</b>	21,665,271	22,093,790
Quoted in Malaysia:				
Shares of corporations	<b>40,139,916</b>	<b>37,991,143</b>	36,819,573	36,721,229
Warrants of corporations	–	–	1,897,321	1,815,800
Loan stocks of a corporation	<b>60,000</b>	<b>60,000</b>	60,000	62,400
Real Estate Investment Trust	<b>346,399</b>	<b>387,347</b>	–	–
	<b>40,546,315</b>	<b>38,438,490</b>	38,776,894	38,599,429
Allowance for diminution in value	<b>(2,148,773)</b>		(179,865)	
	<b>38,397,542</b>		38,597,029	
Unquoted:				
Corporate debt securities	<b>82,912,939</b>		82,332,363	
(Amortisation of premiums)/ accretion of discounts - net	<b>(183,102)</b>		910,893	
	<b>82,729,837</b>		83,243,256	
Fixed and call deposits with:				
Licensed banks	<b>54,673,375</b>		65,923,751	
Licensed finance companies	<b>59,005,848</b>		14,069,992	
Other corporations	<b>534,000</b>		12,901,214	
	<b>114,213,223</b>		92,894,957	
<b>TOTAL INVESTMENTS</b>	<b>257,771,406</b>		236,400,513	

The maturity structure of Malaysian Government Securities, loan stocks, corporate debt securities and fixed and call deposits above is as follows:

	2005 RM	2004 RM
Maturity within 12 months	<b>116,219,487</b>	97,894,957
Maturity after 12 months	<b>103,214,377</b>	99,968,527
	<b>219,433,864</b>	197,863,484

# notes to the financial statements

– 31 December 2005 (continued)

## 7 DEFERRED TAX ASSETS

	2005 RM	2004 RM
At beginning of financial year/period	365,000	(451,000)
Credited to income statement (Note 20)	783,000	816,000
At end of financial year/period	<u>1,148,000</u>	<u>365,000</u>

The movements in deferred tax assets during the financial year comprise the tax effects of the following:

	At beginning of financial year/period RM	(Debited)/ credited to income statement RM	At end of financial year/period RM
<b>12 months ended 31.12.2005</b>			
Excess of capital allowances over depreciation	(211,000)	(56,000)	(267,000)
Amortisation of premiums/(accretion of discounts) - net	(190,000)	251,000	61,000
General allowance for doubtful debts	746,000	(101,000)	645,000
Unearned premium reserves	(114,000)	131,000	17,000
Provisions	84,000	7,000	91,000
Allowance for diminution in value of investments	50,000	551,000	601,000
Total	<u>365,000</u>	<u>783,000</u>	<u>1,148,000</u>
<b>18 months ended 31.12.2004</b>			
Excess of capital allowances over depreciation	(112,000)	(99,000)	(211,000)
Accretion of discounts net of amortisation of premiums	(1,078,000)	888,000	(190,000)
General allowance for doubtful debts	671,000	75,000	746,000
Unearned premium reserves	17,000	(131,000)	(114,000)
Provisions	51,000	33,000	84,000
Allowance for diminution in value of investments	–	50,000	50,000
Total	<u>(451,000)</u>	<u>816,000</u>	<u>365,000</u>

# notes to the financial statements

– 31 December 2005 (continued)

## 8 LOANS

	2005 RM	2004 RM
Mortgage loans	456,065	392,506
Other secured loans	605,063	291,996
Unsecured loans	667	3,980
	<u>1,061,795</u>	<u>688,482</u>
Receivable within 12 months	205,865	102,016
Receivable after 12 months	855,930	586,466
	<u>1,061,795</u>	<u>688,482</u>

## 9 RECEIVABLES

	2005 RM	2004 RM
<b>Trade receivables</b>		
Outstanding premiums including agents, brokers and co-insurers balances	18,378,658	18,711,351
Allowance for doubtful debts	(1,736,342)	(1,975,082)
	<u>16,642,316</u>	<u>16,736,269</u>
Amount due from reinsurers and ceding companies	6,253,225	6,505,287
Allowance for doubtful debts	(2,141,624)	(1,216,529)
	<u>4,111,601</u>	<u>5,288,758</u>
	<u>20,753,917</u>	<u>22,025,027</u>
<b>Other receivables</b>		
Other receivables, deposits and prepayments	782,904	737,014
Amount due from Malaysian Motor Insurance Pool	1,581,411	1,807,573
Amount due from stock brokers	794,403	1,011,012
Interest income due and accrued	2,372,323	2,530,834
Dividend income receivable	–	12,600
	<u>5,531,041</u>	<u>6,099,033</u>
	<u>26,284,958</u>	<u>28,124,060</u>

## 10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

# notes to the financial statements

– 31 December 2005 (continued)

## 11 PROVISION FOR OUTSTANDING CLAIMS

	2005 RM	2004 RM
Provision for outstanding claims	128,377,798	141,387,622
Less: Recoverable from reinsurers thereon	<b>(48,224,472)</b>	(56,830,838)
Net outstanding claims	<b>80,153,326</b>	84,556,784

## 12 PAYABLES

	2005 RM	2004 RM
<b>Trade payables</b>		
Amount due to agents, brokers, insureds and co-insurers	5,407,996	5,125,300
Amount due to reinsurers and ceding companies	<b>9,784,692</b>	7,430,620
	<b>15,192,688</b>	12,555,920
<b>Other payables</b>		
Other payables	1,485,065	1,586,755
Cash collaterals held on behalf of insureds	<b>2,023,003</b>	2,052,265
Amount due to stock brokers	21,094	1,405,980
Accrued liabilities	<b>5,496,575</b>	3,631,558
	<b>9,025,737</b>	8,676,558
	<b>24,218,425</b>	21,232,478

## 13 UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
<b>12 months ended 31.12.2005</b>					
At beginning of financial year	14,254,106	16,523,485	705,490	8,980,587	40,463,668
Increase in reserves	1,593,080	5,226,956	342,664	2,275,374	9,438,074
At end of financial year	<b>15,847,186</b>	<b>21,750,441</b>	<b>1,048,154</b>	<b>11,255,961</b>	<b>49,901,742</b>
<b>18 months ended 31.12.2004</b>					
At beginning of financial period	11,712,843	12,103,011	696,595	8,175,336	32,687,785
Increase in reserves	2,541,263	4,420,474	8,895	805,251	7,775,883
At end of financial period	14,254,106	16,523,485	705,490	8,980,587	40,463,668

# notes to the financial statements

– 31 December 2005 (continued)

## 14 SHARE CAPITAL

	2005 RM	2004 RM
Ordinary shares of RM1 each: Authorised:		
At beginning and end of financial year/period	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At beginning and end of financial year/period	<u>100,000,000</u>	<u>100,000,000</u>

## 15 RETAINED EARNINGS

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income accounts to pay dividends out of its entire retained earnings as at 31 December 2005.

## 16 OPERATING REVENUE

	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
Gross premium	179,226,443	217,957,098
Investment income (Note 18):		
Insurance fund	10,338,431	13,338,180
Non-insurance fund	33,576	61,106
	<u>189,598,450</u>	<u>231,356,384</u>

## 17 MANAGEMENT EXPENSES

	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
Personnel costs	13,611,480	16,794,197
Establishment costs	3,278,614	4,049,929
Marketing costs	2,910,408	2,402,760
Administrative and general expenses	6,261,558	7,327,025
	<u>26,062,060</u>	<u>30,573,911</u>

# notes to the financial statements

– 31 December 2005 (continued)

## 17 MANAGEMENT EXPENSES (CONTINUED)

	<b>12 months ended 31.12.2005 RM</b>	<b>18 months ended 31.12.2004 RM</b>
The above expenditure is further analysed as follows:		
<b>Insurance fund</b>		
Staff salary and bonus	<b>10,864,223</b>	13,367,090
Defined contribution plan	<b>1,680,083</b>	1,831,093
Other staff benefits	<b>1,067,174</b>	1,596,014
	<hr/>	<hr/>
Staff costs	<b>13,611,480</b>	16,794,197
	<hr/>	<hr/>
Non-Executive Directors' remuneration:		
Fee	<b>124,795</b>	118,388
Other emoluments	<b>219,986</b>	181,354
	<hr/>	<hr/>
	<b>344,781</b>	299,742
	<hr/>	<hr/>
Auditors' remuneration	<b>57,000</b>	85,500
Rental of offices	<b>1,532,581</b>	1,890,046
Depreciation of property, plant and equipment	<b>1,479,784</b>	1,842,929
Insurance Guarantee Scheme Fund levies	<b>444,426</b>	539,478
Allowance for bad and doubtful debts	<b>686,353</b>	237,207
Other expenses	<b>7,900,305</b>	8,876,962
	<hr/>	<hr/>
	<b>26,056,710</b>	30,566,061
	<hr/>	<hr/>
<b>Non-insurance fund</b>		
Corporate affairs expenses	<b>5,350</b>	7,850
	<hr/>	<hr/>
	<b>26,062,060</b>	30,573,911
	<hr/>	<hr/>

The number of employees in the Company as at the end of the financial year was 288 (31.12.2004: 260).

The estimated monetary value of benefits provided to a Director during the financial year by way of usage of the Company's assets amounted to RM32,200 (18 months ended 31.12.2004: RM5,138).

The remuneration, including benefit-in-kinds, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM450,800 (18 months ended 31.12.2004: RM646,718).

# notes to the financial statements

– 31 December 2005 (continued)

## 18 INVESTMENT INCOME

	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
<b>Insurance fund</b>		
Interest from:		
Malaysian Government Securities	706,796	957,608
Corporate debt securities	5,016,913	6,072,720
Loans	16,793	27,775
Fixed and call deposits	2,946,439	4,352,810
(Amortisation of premiums)/accretion of discounts - net	(76,709)	673,614
Gross dividends from shares quoted in Malaysia	1,728,199	1,253,653
	<b>10,338,431</b>	13,338,180
<b>Non-insurance fund</b>		
Interest from fixed deposits	33,576	61,106
	<b>10,372,007</b>	13,399,286

## 19 OTHER INCOME/(EXPENDITURE)

	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
<b>Insurance fund</b>		
Profit on sale of property, plant and equipment	200,954	110,037
Profit on sale of investments	1,362,146	6,842,898
Allowance for diminution in value of investments	(1,968,908)	(179,865)
Sundry income	162,186	285,073
Interest paid to reinsurers	(6,872)	(27,113)
Unrealised gain on foreign exchange	6,406	12,832
Realised loss on foreign exchange	(4,431)	(874)
Other (expense)/income - net	<b>(248,519)</b>	7,042,988

## 20 TAXATION

	12 months ended 31.12.2005 RM	18 months ended 31.12.2004 RM
Malaysian taxation:		
Current taxation	10,438,033	9,608,505
Deferred taxation (Note 7)	(783,000)	(816,000)
	<b>9,655,033</b>	8,792,505

# notes to the financial statements

– 31 December 2005 (continued)

## 20 TAXATION (CONTINUED)

	<b>12 months ended 31.12.2005 RM</b>	<b>18 months ended 31.12.2004 RM</b>
<b>Current taxation</b>		
Current financial year/period	<b>10,347,000</b>	10,569,000
Under/(over) accrual in respect of prior financial years	<b>91,033</b>	(960,495)
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	<b>(783,000)</b>	(816,000)
	<b>9,655,033</b>	8,792,505

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	<b>12 months ended 31.12.2005 RM</b>	<b>18 months ended 31.12.2004 RM</b>
Profit before taxation	<b>33,864,736</b>	33,998,961
Tax calculated at a tax rate of 28% (18 months ended 31.12.2004: 28%)	<b>9,482,126</b>	9,519,709
Expenses not deductible for tax purposes	<b>221,966</b>	329,575
Income exempted for tax purposes	<b>(116,425)</b>	(90,596)
Income subject to different tax rate	<b>(23,667)</b>	(5,688)
Under/(over) accrual in respect of prior financial years	<b>91,033</b>	(960,495)
Tax expense	<b>9,655,033</b>	8,792,505

## 21 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM24,209,703 (18 months ended 31.12.2004: RM25,206,456) divided by the number of ordinary shares in issue of 100,000,000 (31.12.2004: 100,000,000) during the financial year.



# notes to the financial statements

– 31 December 2005 (continued)

## 22 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2005 are as follows:

	<b>12 months ended 31.12.2005</b>	<b>18 months ended 31.12.2004</b>
	<b>Gross dividend per share Sen</b>	<b>Gross dividend per share Sen</b>
	<b>Amount of dividend, net of tax RM</b>	<b>Amount of dividend, net of tax RM</b>
Proposed final dividend	<b>30.0</b>	25.0
	<b>21,600,000</b>	18,000,000
	<b>30.0</b>	25.0
	<b>21,600,000</b>	18,000,000

The Directors recommend the payment of a final gross dividend in respect of the financial year ended 31 December 2005 of 30% on 100,000,000 ordinary shares, less income tax at 28%, amounting to RM21,600,000, subject to the approval of members at the forthcoming Annual General Meeting of the Company. The proposed final dividend will be reflected in the financial statements of the next financial year ending 31 December 2006 when approved by shareholders. If approved, the final dividend will be paid on a date to be determined later.

## 23 NET CLAIMS INCURRED

	<b>Fire RM</b>	<b>Motor RM</b>	<b>Marine, Aviation &amp; Transit RM</b>	<b>Miscellaneous RM</b>	<b>Total RM</b>
<b>12 months ended 31.12.2005</b>					
Gross claims paid less salvage	13,785,651	26,926,873	3,477,029	32,882,357	77,071,910
Reinsurance recoveries	(6,237,480)	(1,576,590)	(2,307,376)	(8,777,580)	(18,899,026)
Net claims paid	7,548,171	25,350,283	1,169,653	24,104,777	58,172,884
Net outstanding claims:					
At end of financial year	11,310,667	38,602,872	2,370,226	27,869,561	80,153,326
At beginning of financial year	(7,191,927)	(36,749,779)	(5,173,510)	(35,441,568)	(84,556,784)
Net claims incurred	<b>11,666,911</b>	<b>27,203,376</b>	<b>(1,633,631)</b>	<b>16,532,770</b>	<b>53,769,426</b>
<b>18 months ended 31.12.2004</b>					
Gross claims paid less salvage	22,206,988	28,949,804	2,455,274	27,674,742	81,286,808
Reinsurance recoveries	(12,634,723)	(1,872,805)	(1,123,655)	(14,045,677)	(29,676,860)
Net claims paid	9,572,265	27,076,999	1,331,619	13,629,065	51,609,948
Net outstanding claims:					
At end of financial period	7,191,927	36,749,779	5,173,510	35,441,568	84,556,784
At beginning of financial period	(6,419,567)	(27,138,310)	(4,793,427)	(17,981,543)	(56,332,847)
Net claims incurred	<b>10,344,625</b>	<b>36,688,468</b>	<b>1,711,702</b>	<b>31,089,090</b>	<b>79,833,885</b>

# notes to the financial statements

– 31 December 2005 (continued)

## 24 CASH FLOW SEGMENT INFORMATION

	12 months ended 31.12.2005			18 months ended 31.12.2004		
	Insurance fund RM	Non-insurance fund RM	Total RM	Insurance fund RM	Non-insurance fund RM	Total RM
Cash flows from:						
Operating activities	17,723,224	(23,130)	17,700,094	22,203,333	(36,768)	22,166,565
Investing activities	(1,337,580)	–	(1,337,580)	(2,980,040)	–	(2,980,040)
Financing activities	–	(18,000,000)	(18,000,000)	–	(18,000,000)	(18,000,000)
Effects of exchange rate changes on cash and cash equivalents	1,405	–	1,405	(2,185)	–	(2,185)
Transfer from insurance fund to non-insurance fund	(18,023,130)	18,023,130	–	(18,036,768)	18,036,768	–
	<b>(1,636,081)</b>	<b>–</b>	<b>(1,636,081)</b>	<b>1,184,340</b>	<b>–</b>	<b>1,184,340</b>
Net (decrease)/increase in cash and cash equivalents	<b>(1,636,081)</b>	<b>–</b>	<b>(1,636,081)</b>	<b>1,184,340</b>	<b>–</b>	<b>1,184,340</b>
Cash and cash equivalents:						
At beginning of financial year/period	1,790,646	–	1,790,646	606,306	–	606,306
At end of financial year/period	<b>154,565</b>	<b>–</b>	<b>154,565</b>	<b>1,790,646</b>	<b>–</b>	<b>1,790,646</b>

## 25 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The holding company is RHB Capital Berhad and the Directors regard Rashid Hussain Berhad as the ultimate holding company. Both companies are incorporated in Malaysia.

By virtue of being a subsidiary of RHB Capital Berhad and Rashid Hussain Berhad, the Company is deemed related to parties related to RHB Capital Berhad and Rashid Hussain Berhad. The related parties of RHB Capital Berhad and Rashid Hussain Berhad are disclosed in the financial statements of those companies.

The significant related parties of, and their relationship with the Company, are as follows:

Related parties	Relationship
RHB Capital Berhad	Holding company
Rashid Hussain Berhad	Ultimate holding company
RHB Bank Berhad	Subsidiary of holding company
RHB Hartanah Sdn Bhd	Subsidiary of holding company
RHB Delta Finance Berhad	Subsidiary of holding company
RHB Leasing Sdn Bhd	Subsidiary of holding company
RHB Sakura Merchant Bankers Berhad	Subsidiary of holding company
RHB Securities Sdn Bhd	Subsidiary of holding company
RHB-Daewoo Sdn Bhd	Subsidiary of ultimate holding company

# notes to the financial statements

– 31 December 2005 (continued)

## 25 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The following are the significant related party transactions and balances in respect of transactions entered into during the current financial year. The related party transactions described below were on terms and conditions no more favourable than those available on similar transactions to the Company's other customers.

Related party transactions	Nature of transaction		12 months ended	18 months ended
			31.12.2005 RM	31.12.2004 RM
RHB Bank Berhad	Interest income		530,718	808,333
	Insurance premium earned		20,279,758	17,072,504
	Commission paid and payable		(3,998,106)	(5,729,068)
RHB Delta Finance Berhad	Interest income		919,532	1,411,241
	Commission paid and payable		(1,033,756)	(1,311,419)
RHB Sakura Merchant Bankers Berhad	Insurance premium earned		195,415	850,580
RHB Leasing Sdn Bhd	Commission paid and payable		(409,896)	(569,195)
RHB Securities Sdn Bhd	Insurance premium earned		714,523	530,646
RHB Hartanah Sdn Bhd	Rental expense		(1,174,403)	(1,495,728)
RHB-Daewoo Sdn Bhd	Insurance premium earned		466,908	710,235
			<u>          </u>	<u>          </u>
Related party balances	Types of balances	Note	2005 RM	2004 RM
RHB Bank Berhad	Fixed and call deposits	6	13,661,543	15,672,454
	Cash at bank	10	33,732	1,686,665
	Insurance premium	9	1,889,986	548,460
RHB Delta Finance Berhad	Fixed and call deposits	6	22,505,847	32,837,670
	Interest receivable	9	436,535	732,166
			<u>          </u>	<u>          </u>

## 26 CAPITAL COMMITMENTS

Capital expenditure on property, plant and equipment approved by Directors but not provided for in the financial statements amounted to approximately:

	2005 RM	2004 RM
Authorised and contracted for	332,781	55,829
Authorised but not contracted for	50,000	491,121
	<u>          </u>	<u>          </u>

# notes to the financial statements

– 31 December 2005 (continued)

## 27 FINANCIAL INSTRUMENTS

### (a) Interest rate risk

The following table provides information about financial assets and financial liabilities, showing the weighted average effective interest rate and the maturity date of each class of interest bearing financial instrument in the balance sheet.

At 31 December 2005

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
<b>Financial assets</b>						
Investments:						
– Malaysian Government Securities	–	–	22,430,804	–	22,430,804	3.82
– Shares quoted in Malaysia	37,991,143	–	–	–	37,991,143	–
– Loan stocks quoted in Malaysia	–	–	60,000	–	60,000	3.05
– Real Estate Investment Trust quoted in Malaysia	346,399	–	–	–	346,399	–
– Corporate debt securities	–	2,006,264	32,915,097	47,808,476	82,729,837	6.66
– Fixed and call deposits	–	114,213,223	–	–	114,213,223	2.94
Loans	597,684	–	123,613	340,498	1,061,795	4.29
Other receivables	3,658,025	–	–	–	3,658,025	–
Cash and cash Equivalents	154,565	–	–	–	154,565	–
	<u>42,747,816</u>	<u>116,219,487</u>	<u>55,529,514</u>	<u>48,148,974</u>	<u>262,645,791</u>	
Other financial assets*					<u>22,335,328</u>	
Total financial assets					<u>284,981,119</u>	
Other assets					<u>5,687,613</u>	
Total assets as per balance sheet					<u>290,668,732</u>	
<b>Financial liabilities</b>						
Other payables	<u>6,267,926</u>	–	–	–	<u>6,267,926</u>	
Other financial liabilities*					<u>97,693,673</u>	
Total financial liabilities					<u>103,961,599</u>	
Other liabilities					<u>53,191,802</u>	
Total liabilities as per balance sheet					<u>157,153,401</u>	

# notes to the financial statements

– 31 December 2005 (continued)

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Interest rate risk (continued)

At 31 December 2004

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
<b>Financial assets</b>						
Investments:						
– Malaysian Government Securities	–	–	21,665,271	–	21,665,271	7.41
– Shares quoted in Malaysia	36,721,229	–	–	–	36,721,229	–
– Warrants quoted in Malaysia	1,815,800	–	–	–	1,815,800	–
– Loan stocks quoted in Malaysia	–	–	60,000	–	60,000	3.05
– Corporate debt securities	–	5,000,000	43,098,444	35,144,812	83,243,256	7.03
– Fixed and call deposits	–	92,894,957	–	–	92,894,957	3.22
Loans	281,750	–	44,632	362,100	688,482	4.23
Other receivables	3,999,557	–	–	–	3,999,557	–
Cash and cash equivalents	1,790,646	–	–	–	1,790,646	–
	<u>44,608,982</u>	<u>97,894,957</u>	<u>64,868,347</u>	<u>35,506,912</u>	<u>242,879,198</u>	
Other financial assets*					<u>23,832,600</u>	
Total financial assets					<u>266,711,798</u>	
Other assets					<u>7,058,162</u>	
Total assets as per balance sheet					<u>273,769,960</u>	
<b>Financial liabilities</b>						
Other payables	<u>5,831,076</u>	–	–	–	<u>5,831,076</u>	
Other financial liabilities*					<u>99,462,867</u>	
Total financial liabilities					<u>105,293,943</u>	
Other liabilities					<u>41,170,389</u>	
Total liabilities as per balance sheet					<u>146,464,332</u>	

\* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts and employee benefits is not shown as it is excluded from the scope of FRS 132 "Financial Instruments: Disclosure and Presentation."

# notes to the financial statements

– 31 December 2005 (continued)

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Credit risk

The Company's credit risk exposure is analysed as follows:

	Carrying amount	
	2005	2004
	RM	RM
Analysed by rating:		
<b>Unquoted corporate debt securities</b>		
AAA	25,615,847	14,622,644
AA	35,652,888	43,141,216
A	21,461,102	25,479,396
	82,729,837	83,243,256
<b>Loans</b>		
No rating	1,061,795	688,482
	83,791,632	83,931,738

The rating categories are based on the grading of reputable rating agencies.

	Carrying amount	
	2005	2004
	RM	RM
Analysed by industries:		
<b>Unquoted corporate debt securities</b>		
Manufacturing	7,015,757	1,507,555
Electricity, gas and water	10,583,004	29,533,942
Construction	23,004,938	14,594,278
Real Estate	11,288,029	5,525,482
Transport, storage and communication	5,381,768	13,311,615
Finance, insurance and business services	7,335,424	14,544,816
General commerce	3,307,237	504,570
Hospital	3,755,986	3,720,998
Government and government agencies	701,613	–
Mining and quarrying	5,073,441	–
Agriculture	5,282,640	–
	82,729,837	83,243,256
<b>Loans</b>	1,061,795	688,482
	83,791,632	83,931,738

# notes to the financial statements

– 31 December 2005 (continued)

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Foreign currency risk

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date, stated in Ringgit Malaysia or foreign currency stated in Ringgit Malaysia equivalent, are set out below:

#### At 31 December 2005

	Ringgit Malaysia RM	Singapore Dollar RM	Total RM
<b>Financial assets</b>			
Investments:			
– Malaysian Government Securities	22,430,804	–	22,430,804
– Shares quoted in Malaysia	37,991,143	–	37,991,143
– Loan stocks quoted in Malaysia	60,000	–	60,000
– Real Estate Investment Trust quoted in Malaysia	346,399	–	346,399
– Corporate debt securities	82,729,837	–	82,729,837
– Fixed and call deposits	114,213,223	–	114,213,223
Loans	1,061,795	–	1,061,795
Other receivables	3,658,025	–	3,658,025
Cash and cash equivalents	57,445	97,120	154,565
	<u>262,548,671</u>	<u>97,120</u>	262,645,791
Other financial assets*			22,335,328
Total financial assets			284,981,119
Other assets			5,687,613
Total assets as per balance sheet			<u>290,668,732</u>
<b>Financial liabilities</b>			
Other payables	<u>6,267,926</u>	–	6,267,926
Other financial liabilities*			97,693,673
Total financial liabilities			103,961,599
Other liabilities			53,191,802
Total liabilities as per balance sheet			<u>157,153,401</u>

# notes to the financial statements

– 31 December 2005 (continued)

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Foreign currency risk (continued)

At 31 December 2004

	Ringgit Malaysia RM	Singapore Dollar RM	Total RM
<b>Financial assets</b>			
Investments:			
– Malaysian Government Securities	21,665,271	–	21,665,271
– Shares quoted in Malaysia	36,721,229	–	36,721,229
– Warrants quoted in Malaysia	1,815,800	–	1,815,800
– Loan stocks quoted in Malaysia	60,000	–	60,000
– Corporate debt securities	83,243,256	–	83,243,256
– Fixed and call deposits	92,894,957	–	92,894,957
Loans	688,482	–	688,482
Other receivables	3,999,557	–	3,999,557
Cash and cash equivalents	1,764,663	25,983	1,790,646
	<u>242,853,215</u>	<u>25,983</u>	<u>242,879,198</u>
Other financial assets*			<u>23,832,600</u>
Total financial assets			266,711,798
Other assets			<u>7,058,162</u>
Total assets as per balance sheet			<u>273,769,960</u>
<b>Financial liabilities</b>			
Other payables	<u>5,831,076</u>	–	5,831,076
Other financial liabilities*			<u>99,462,867</u>
Total financial liabilities			105,293,943
Other liabilities			<u>41,170,389</u>
Total liabilities as per balance sheet			<u>146,464,332</u>

\* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts and employee benefits is not shown as it is excluded from the scope of FRS 132 "Financial Instruments: Disclosure and Presentation."



# notes to the financial statements

– 31 December 2005 (continued)

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Fair values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date approximated their fair values, except as set out as below:

#### At 31 December 2005

	Carrying amount RM	Fair value RM
Investments:		
– Malaysian Government Securities	22,430,804	22,133,800
– Real Estate Investment Trust quoted in Malaysia	346,399	387,347
– Corporate debt securities	82,729,837	85,350,245
Loans	1,061,795	938,264
	<u>106,568,835</u>	<u>108,809,656</u>

#### At 31 December 2004

Investments:		
– Malaysian Government Securities	21,665,271	22,093,790
– Loan stocks quoted in Malaysia	60,000	62,400
– Corporate debt securities	83,243,256	85,187,160
Loans	688,482	613,258
	<u>105,657,009</u>	<u>107,956,608</u>

The carrying amounts of Malaysian Government Securities and loans were not reduced to their fair values, as the Directors considered that the impact to the financial statements was not significant.

## 28 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 25 January 2006.

# statement by directors

Pursuant to Section 169 (15) of the Companies Act, 1965, we, Dato' Mohd Salleh Bin Hj Harun and Vaseehar Hassan Bin Abdul Razack, two of the Directors of RHB Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 33 to 63 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2005 and of its results and cash flows for the financial year ended 31 December 2005 in accordance with MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 25 January 2006.

**DATO' MOHD SALLEH BIN HJ HARUN**  
CHAIRMAN

Kuala Lumpur  
25 January 2006

**VASEEHAR HASSAN BIN ABDUL RAZACK**  
DIRECTOR

# statutory declaration

Pursuant to Section 169(16) of the Companies Act, 1965, I, Koh Heng Kong, being the officer primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 33 to 63 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly )  
declared at Kuala Lumpur )  
on 25 January 2006 )  
)  
Before me, )

**KOH HENG KONG**

**KADARIAH BTE ABDUL KARIM**  
COMMISSIONER FOR OATHS

Kuala Lumpur  
25 January 2006

# report of the auditors

to the members of RHB Insurance Berhad

We have audited the financial statements set out on pages 33 to 63. 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 these 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 auditing standards 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Company as at 31 December 2005 and of the results and cash flows of the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**PRICEWATERHOUSECOOPERS**

(No. AF: 1146)  
Chartered Accountants

**DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN**

(No. 1867/09/06 (J))  
Partner of the firm

Kuala Lumpur  
25 January 2006

# Branch Network

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